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STUDIES IN ECONOMICS AND POLITICAL SCIENCE

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BRITISH INCOMES AND PROPERTY

BRITISH INCOMES AND PROPERTY :

THE APPLICATION OF OFFICIAL
STATISTICS TO ECONOMIC PROBLEMS

BY

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PREFACE.

THE greater part of this work was completed before the war began. In so far as it is a contribution to economic history, it might well have awaited a more auspicious time for publication ; but there is sufficient justification for its appearance now in the fact that the war itself is raising, and will continue to raise, questions relating to national income, property, and wealth, as well as to the distribution of incomes, in which the official statistics play a more or less important part. Any assistance which this book may afford to those who wish to use and interpret these statistics in economic, statistical, or political investigations is accordingly offered without further delay, although leisure has been wanting for elaboration of some of the applications in Part II. on the lines originally planned. The war marks, as definitely as the close of the Napoleonic era, the completion of one economic epoch and the beginning of another, so that a summary of the official record of the past century can hardly be regarded as inopportune at this turning point in our national history.

I should not like to miss the opportunity of expressing to Dr. Bowley my appreciation of his kindly interest in this study. My obligations are due to

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Messrs. S. Minnis and G. T. Nicholls for criticisms on particular points, and especially to Mr. J. W. Mitchell for his patience and helpful suggestion in many discussions, while I owe much to many old friends in various parts of the kingdom, my colleagues in the Inland Revenue Department, who have given me freely of their experience where a collective opinion has been desirable. Mr. E. C. L. White has rendered invaluable assistance with the indexes.

I shall be grateful to any reader who draws my attention to any inaccuracies which may be found in the text, the references, or the tables.

Several changes introduced in the Budget of September, 1915, while this book was in the press, have been briefly referred to in footnotes.

J. C. S.

September, 1915.

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ABBREVIATIONS USED THROUGHOUT THIS BOOK.

Report.—Annual Report of the Commissioners of Inland Revenue.

R. C., S. C., D. C.—Royal Commission, Select Committee, Departmental Committee. The numbers given refer to the questions in the evidence.

H. C.—House of Commons paper—the number and year following.

T. C.—Reports on Tax Cases—a standard series of legal reports.

S. J.—Journal of the Royal Statistical Society.

Hansard.—Hansard's Parliamentary Debates.

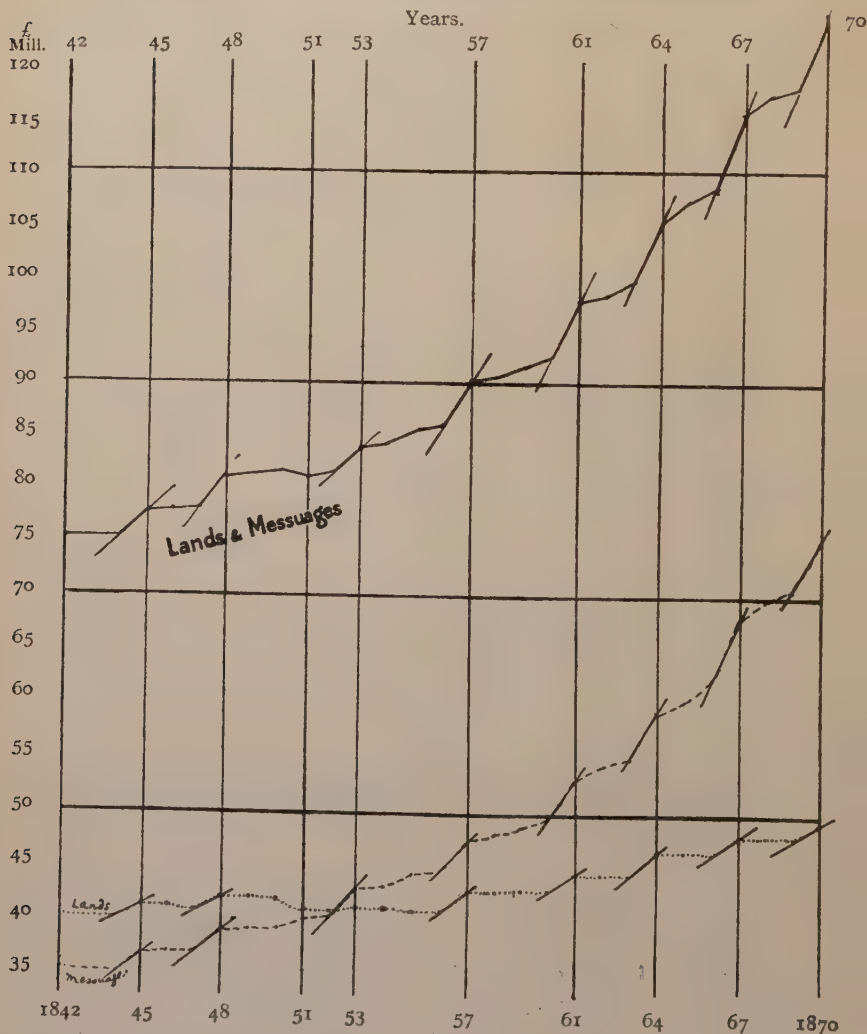
Sch.—Schedule.

Ex. Met.—Extra Metropolitan area (England and Wales, excluding the area covered by the Metropolitan Valuation Act).

GRAPH I. (*vide p. 31*).

GROSS SCHEDULE A, ENGLAND AND WALES, 1842 TO 1870.

Change of direction in Re-assessment Year indicated.



BRITISH INCOMES AND PROPERTY.

INTRODUCTION.

THE statistics of the income tax, together with those of the inhabited house duty (which form in fact merely a sub-classification of one section of the income tax), may fairly be numbered amongst the three or four great branches of national official statistics, and, from some points of view, they may be said to rival in importance statistics of population, of births, marriages and deaths, and of overseas trade. Their use is both widespread and essential, and they form the only criterion we possess by which to judge certain features of progress, and by which to examine some vexed modern problems in economic sociology. Unfortunately they differ in one important respect from all other great branches of statistics. Census and general registration details, and particulars of foreign trade, can be schemed, and broadly speaking are actually designed, to serve purely statistical ends ; where the statistical framework shows signs of weakness it can be specially strengthened. But the statistics which form the subject of this work are the by-product of a system of taxation. That system is designed, maintained, and modified on legal and administrative lines with a view to its efficiency as an engine of taxation. First and last is the object of raising revenue with a maximum of financial result and a minimum of inconvenience, evasion, and expense. Nowhere does it study to ensure statistical convenience or completeness. Assessments made in such a

way as to give the best results for all concerned from the point of view of taxation may be in such a form as to give the worst facilities for statistical use. It will of course be urged that the income tax system is cumbrous, archaic, and involved, and that its general convenience and efficiency would be greatly improved if it were revised and simplified. Even if this be admitted to the full, it does not in the least follow that the revised system would serve the statistician any better, if as well. The broad probability must always remain that maximum advantage for taxation will not coincide with maximum advantage for statistical use. Indeed, a scheme designed to furnish the details required by some statisticians would be a poor revenue-getter, and perhaps its facile "facts" would be further from the truth than the present official tables. The Prussian system yields some beautiful tables, but it would need a greater recommendation than that before the British public would tolerate it or our officials precipitately adopt it.

For many years the life of the income tax hung upon a slender thread. The most fundamental idea of the tax was that it lasted for a year and no longer. It refused to take considerations of justice upon a long view, and was always about to be "abolished." It was administered as a temporary extra task by a staff whose main business lay elsewhere, and who gave it the minimum attention that it appeared to deserve. Who could be enthusiastic about a stopgap, a temporary visitant? Who could advise laying down an expensive national "plant" for transitory purposes? Even long after the time when the continuance of the tax should—as it appears to us after the event—have shown clearly that the "temporary" idea was out of date, the expenditure upon the staff and its equipment was niggardly and far below the responsibility of the task involved. Indeed, only quite recently, and after seventy years, has the clerical staff been "recognised," established, and dealt with upon an official basis. The large element of local control and administration, although it was probably vital to the life of the system, for twenty years effectively hindered any serious grip of the whole task by the central

authority. When all the facts are considered, and especially when some of the complex parliamentary statistical returns of the earlier days are examined, the marvel is, not that the statistics were so bad and so inadequate, but that they were so good and so detailed. One has only to be reminded, by some of the older and retired officials, of the days when, in a district of great area and importance, it needed all the efforts of the overworked and harassed surveyor of taxes to prevent money "flowing down the drain," in order to set in its proper light the annual task of preparing a statistical return which would occupy his time for four or five weeks, or, if that task were confided to the clerk (with a weekly wage of fifteen or twenty shillings), of the equally protracted duty of discovering his errors and adjusting the totals judiciously in the end.

In such circumstances the statistical aspects of the official's work could never be regarded as important. Revenue was his objective, and he took the line of least resistance. Where no revenue was involved it may be regarded as axiomatic that statistical completeness was weak. When there came a change in law, a new exemption limit, or a new allowance, the break was frankly and openly made—there was no attempt at statistical sequence. Why should official posterity be burdened with such an encumbrance? Besides, their duty was to record what was actually there in exact figures, and not what might have been in other circumstances.

So for sixty years the Commissioners of Inland Revenue have presented to the Lords of the Treasury tabular statements of various "assessments," conditioned entirely by the statutory basis of those "assessments." They did not translate that information into terms of ordinary life, into incomes, persons, and so on. From time to time they gave explanations and warnings, but if any investigator wanted "definitions" and guidance there were always the law-books to which he could resort. It could hardly have been otherwise, for, until recent years, the system was so entirely an objective one that there was not the slightest internal evidence upon such vital questions as the number of taxpayers or the distribution of income. Gaps were indeed pointed

out, but it was left for the ingenious and wary to bridge them, and radical changes in law greatly impaired the comparability of the figures over a series of years, and made it difficult to employ them in ordinary problems.

It is small wonder that the statistician, turning from other classes of figures designed for his use to the products of an income tax department whose main function, as it seems to him, should be that of turning out information about "incomes," is filled with impatient disgust. Dr. Bowley, in an address to the Economic Section of the British Association, has expressed the general defects of official statistics in these terms :—

"It has till recently been the custom of departments publishing statistical returns to issue them without explanation of the particular conventions adopted, and then to complain that the ignorant public misquote them, till there was a danger that statistics should be issued only by officials for officials, and even by an official for himself alone, while the use of them (necessarily erroneous) by the general public was regarded as objectionable trespass in a private preserve. The growth of popular interest, and of a certain blind and misguided confidence in statistical statements, resulted in the printing of cautions that the statistics did not mean what they appeared to mean; and then boards were erected to the effect that this table was dangerous to statisticians, and newspaper writers should drive with caution; but it did not for long occur to those responsible that it was their business to put the public roads in good order for the convenience of travellers."

There is no doubt that the Inland Revenue reports would answer to this description very closely, in the opinion of this eminent authority. Indeed, in another place he describes them as the last refuge of "obscurantism," while in writing generally upon the improvement of official statistics he comes to close grips with the difficulties of the subject :—

"As examples of unsuitable units we may instance . . . £1 income brought under the review of the Inland Revenue Commissioners, which is often not income, while much income is not included. Most official publications fail from want of definition. What is meant by gross income, how are estates valued for probate, what is the relation between assessed value of houses and

their true value, what is a residential shop ? . . . In each of these and in innumerable other cases special knowledge is needed before the exact working definition is known" (*Stat. Journal*, September, 1908).

This lends force to his plea for a central statistical department which could supervise the existing figures, as well as undertake or direct excursions in pure statistics. But even here he clearly underrates the inherent difficulties owing to the vast legal complications of the subject, and to the fact that the administration of the tax must always have a revenue orientation :—

" . . . If the method of samples were employed with compulsory powers, we could (for example in statements of income, for which statutory powers already exist) by a rapid and abridged investigation get a great deal of unbiassed information. . . . There is very great delay in publications of many of our statistics. We receive our external trade statistics with wonderful promptitude ; it is only a matter of organisation to hasten all the serial publications. As regards occasional reports, the delay is due to methods derived from the Circumlocution Department. With an untrained staff at the bottom hastily brought together and as hastily disbanded, with understaffing at the head, and a hierarchy of officials who must initial every minute and delay every report till it has received their several imprimaturs, there is no wonder that official statistics often do not appear till after their possible utility is passed. This, with many other defects, will disappear when we have a central permanent statistical department. . . . A specially important consideration in the immediate future will be the comparability of the statistics published by the Inland Revenue Commissioners with previous years. It appears that during the past year a great deal of income has been discovered and taxed which had hitherto eluded the collector. Also there has been, I believe, some change in the methods of averaging the receipts of the past years in favour of paying on the most recent year ; certainly the forms issued have altered considerably, and the unit requires new and very careful definition. If the figures either for gross or net income are published, they will give rise to yet more serious errors as to the growth of income than that with which I dealt just now, and it is of national importance that this should be put right. Further, an immense amount of information is accumulating with the recent differentiation of the tax, and if it is skilfully handled, it should throw light on many of the

questions which the Income Tax Committee left doubtful. There is a great opportunity for the statisticians of Somerset House, which Mr. Mallet's recent paper leads us to hope will be taken, to give us a sound and very interesting analysis of a great part of the national income. Incidentally, it may be hoped that the 'gross revenue' statistics may be amended, or disappear from the Statistical Abstract."

In writing upon the same subject another distinguished statistician, Sir J. Athelstane Baines, refers to the income tax statistics, and remarks that the interesting evidence given before the Select Committee of 1906 "showed how much has to be based upon approximation from *data* more or less remote, as soon as one comes to grips with important questions. . . . As a rule, however, the dead weight of returns poured into an office such as this keeps the whole staff at work upon current duties. Nevertheless, it may be assumed from the amount of detail collected that much good work could be done in the way of correlation of the different revenue returns if any one of the officials had the time and the taste for it. . . ." ¹ Sir L. G. Chiozza Money commented upon Dr. Bowley's paper, quoted above, in terms somewhat more favourable to the reports. He agreed with "all that had been said with regard to the unfortunate habit of publishing statistics without sufficient explanation. For instance, the Statistical Abstract contained scarcely a page which would not deceive a man who came to it without careful study. That was the cause of the misquotations in the newspapers." . . . In many official publications of the last two years more and more explanatory matter had been published. The Report of the Inland Revenue Commissioners did condescend to explain a great deal of the information given ; and he noticed that that useful habit was finding its way to other departments, so that they might hope in a few years even the Statistical Abstract might condescend to explain its very valuable contents.

It is not my intention in any way to take up this matter, either in defence or in further attacks, but the opinion may

¹ "Our Statistics : A Plea for a Central Government Department," *Financial Review of Reviews*.

at any rate be expressed that many of the criticisms urged against the income tax statistics show a real failure to appreciate the genuine difficulties of the subject and its intractability for ordinary treatment. Some of those criticisms also show a failure to appreciate the degree of ingenuity that has been required to work upon the raw material and present the tables in the form that has been adopted since the year 1900. Any one who imagines that a taxed "income" is—or *can* be under the most ideal system—a simple objective fact like a death, or a bale of goods, or a cheque, or a railway mile, is recommended to a stout volume like Dowell's "Income Tax Laws," or is asked to devise, with the aid of Seligman's "Income Tax," a scheme of taxation which shall fit all the complexity of modern life like a glove, pay over taxes without irritation, hesitation or evasion, and yield statistics that a babe can handle.

Now the classification of assessments under Sch. D is a case in point. It is true its practical value is limited, and it whets the appetite for the unattainable, but it was furnished under Pitt's tax and has been rendered continuously since the forties, for it represents the best that could be given by way of analysis in those days, and in its improved form it gives what can be known about such assessments now. Practical experience has, however, shown the necessity for careful definition and explanation in order that it shall not be held to convey more than it really does, and a hypothetical example is therefore furnished annually. Dr. Bowley is sarcastic at the expense of "an imaginary solicitor, who also owns houses and shares in Government, municipal, and foreign stock and in a public company, who occupies lands, is a land agent and borough auditor, and employs his leisure moments with success as an author. . . . It is time that this talented gentleman disappeared, and that the report was devoted to showing what is the case, rather than to proving that the tables printed are only booby traps."¹ The true difficulty and difference of view lie in the assumption of an identity in the two tasks—the analysis of the

¹ *Nineteenth Century*, 1910, p. 943.

existing material and the special preparation of material for statistical ends—both as to the work and expense involved, and also as to the recognised functions of the department.

The main practical aims of this work are threefold :—

First, it is proposed to describe the subject-matter and to formulate definitions of all the “conventions” of the tax in such a way that their bearing upon statistical and economic investigation shall be clear, and the relations between the figures and the facts be revealed so far as that may be possible. To this end the present form of the statistical returns is examined in detail.

Secondly, an attempt has been made to obtain historic continuity in the figures, and to furnish tables, based upon the official returns, which shall bridge the gaps or “breaks” caused by changes in the legal and administrative basis of assessment, so that a real comparability may exist between years widely separated. Sir Athelstane Baines has remarked : “After proceeding a certain distance on an excellent road, the explorer finds himself brought up by an impassable chasm, or perplexed by the dispersal of the track into a number of blind alleys, putting an end to all progress.” It is this continual bar to useful comparison that I have endeavoured to overcome by a presentation of the tables upon main uniform lines throughout, and particularly in showing, by close approximation, how the original tables must be modified to give what *would have been* the figures if recent statutory conditions (as to exemption limits, repairs, allowances, etc.) had obtained throughout. It has been impossible, for example, to get a continuous view of any set of statistics from 1842 without reference to at least six separate volumes (and often many more), and this involves all the perils of transition. Even so careful a worker as Giffen is occasionally trapped. In a comparison of real property values made for the years 1814, 1853, 1868, 1884, and 1901 he gives figures which are really not comparable at all : for the first two dates he quotes England and Wales only, the second is really applicable to 1843, the first includes quarries, mines and ironworks, the second adding also profits

of railways and gas works, while the last three exclude all these items and refer to the United Kingdom.¹

It will readily be understood that, apart from general comments, no attempt has been made to allow in these tables for the improved *efficiency* of the tax administration. But the opportunity has been taken—indeed, it was essential to the successful performance of the task—to bring together from widely scattered sources all the available information, to sift it, and to preserve all that is likely to be of value.

In the third place, the book illustrates freely the practical difficulties connected with the use of these statistics for economic investigation. The inquirer will find, in connection with any given subject, if the statistics have been applied to it at all, a sufficiently complete reference or bibliography of that application, with the warnings and limitations peculiar to it. The intention has not been to extend the scope of the work unduly by giving a complete examination of all such investigations, but to say sufficient in each case to guide past the chief pitfalls and to provide some definite ideas as to the work already done upon the subject.

It is *not* a part of the purpose of this book to carry on these economic investigations to a final conclusion in each case. That would in most instances involve the use of auxiliary statistics, or an incursion into other spheres, and some of those inquiries would require a volume specially devoted to each. It has been the aim to provide new or improved tools for use rather than to use them when made ; to prepare a road rather than to transport merchandise ; to build the vessel for others rather than to take voyages in her. But in several directions, not involving the use of outside material, constructive work has been done beyond the strict limits of the book where it has arisen directly from the appointed task. This necessary restraint has been exercised even at the risk of such a criticism as that made by Mr. Ernest Barker : “ He seems to do a great deal of packing in preparation for a journey on which he never starts.”²

¹ *Vide* p. 38.

² In “ Political Thought from Spencer,” *à propos* of MacDougall’s “ Social Psychology.”

The official figures used throughout this book are derived from the following sources :—

(a) *Reports of the Commissioners of Inland Revenue*, 1 to 57, 1855-6 to 1912-13 (these are referred to throughout briefly, e.g., "18th Report"). They form the main source, as the annual statistical returns rendered by the surveyors of taxes are summarised therein. The 1st, 13th, 28th, and 45th Reports are especially valuable, both for their summary tables, and also their descriptive matter. In many of the earlier ones the information given is somewhat meagre, but important clues are sometimes to be found in them. Great changes were introduced in the content and presentation of the statistics in 1874-5 and 1900-1 and a unification of the various periods has been one of the chief tasks of this work.

(b) *Returns rendered to Parliament*, 1801 to 1915 (referred to in the form "H. C. 57 of 1863" or "H. L. 61 of 1864"). These returns are very numerous. Some of them form a series (e.g., classification of Sch. D and E assessments), and others were of ephemeral interest only or were embodied in subsequent reports. But in many cases the details given are important and unique.

(c) *The Reports of Royal Commissions, Select and Departmental Committees*, together with the evidence. The appendices frequently contain specially prepared official returns, and the evidence brings out the character and limitations of official statistics, with valuable and official expressions of opinion on difficult points.

(d) *Tables supplied officially* to eminent investigators : Levi, Giffen, Goschen, etc.

(e) *Answers to Questions in Parliament*, Budget Speeches, etc. (the reference to Hansard is given where necessary). Where the information furnished is likely to be useful in future it has been incorporated.

Although a practical acquaintance with the official statistics of income tax and inhabited house duty, with the general procedure of their compilation and with the assessments themselves, has materially assisted in the interpretation and manipulation of the figures, this work is in no sense an official one. No statistics are given which had not already

been published and which are not equally available for all investigators in the documents above mentioned. But for the use that is now made of them I am entirely responsible. Sufficient evidence for the general definitions and practical statements given may be found in Dowell's "Income Tax Laws" and Dowell's "House Duty Acts," in the Commissioners' Reports, in the published Tax Cases, in the evidence before the Income Tax Committees of 1905 and 1906, and in such reference books on practice as Senior's "Income Tax Practice," published in the sixties, and Murray and Carter's well-known work for recent years. Nevertheless, a careful compilation from these sources would hardly have assumed the form which practical knowledge and a study specially directed to statistical ends have given to the present work, for legal lore and technical reference have been severely subordinated to the main purpose. They have been drawn upon freely, but only so far as they are likely to have a bearing upon interpretation and use for statistical and economic investigations. For such purposes the treatment has been as complete as seems to be necessary, but for *all other purposes it is manifestly inadequate*. The work pretends to no authority, therefore, in general income tax matters from the standpoint of law, accountancy, equity, political theory, or ordinary practice.

For some of the difficult research affecting the earlier years I have, before arriving at my conclusions, examined all the original blank forms of assessment, together with blank forms of the statistical returns which formed the basis of the official reports, and on matters of practice I have consulted retired officials whose memory extends, with varying degrees of reliability, to the early sixties. In some matters in which no official data has been obtained or published I have relied upon my own experience and observation (as a sample investigation), or I have obtained expressions of opinion from a number of official friends whose varied experience furnishes the best possible substitute for actual sample tests on a comprehensive scale.

The illustrative quotations are not exhaustive in any sense—many that have come under my notice have been omitted

to avoid tedious repetition—but they are drawn from a wide range of economic and statistical literature. They are not given in any captious or critical spirit. It is true that, in some instances, gross carelessness has been exhibited, by the authors cited, in their use of official returns ; and there are one or two writers who are culpably negligent in their writings generally. But for the most part the errors are excusable or natural, and could only have been avoided by a close study of the statistical material. They are cited in detail to justify the treatment of the subject in the text, which otherwise might appear to elaborate unnecessarily or to labour the obvious. It is often valuable, moreover, to observe the precise form in which an erroneous interpretation has been made. Collectively, these references furnish perhaps the best and most obvious justification for the present work. They show that the whole subject is a difficult one and that some guidance in its technicalities is not unnecessary ; and, further, they prove the importance of this class of statistics and the wide and various uses to which the details are brought.

The new and entirely original tables compiled from the official data, corrected and adjusted to exhibit consistent sequences, are intended to show as faithfully as possible the true trend of objective facts, uncomplicated by interior changes either in law or administrative practice. The official figures are very unsuited for comparisons over long periods, and these tables are now offered as superior for such purposes and as superseding to that extent the use of official reports in their “ raw ” state. It is hoped, therefore, that they may be regarded as a real, if humble, contribution to the economic and social history of the United Kingdom in the last hundred years.

Mathematical methods of interpolation have occasionally been used, but in most instances (particularly in the distribution of known totals over a classification) they do not give results so consistent and accurate as a “ free-hand ” method which follows, on a technical instinct, the trend of each series of figures, and duly observes the numerous checks and limits afforded by other branches of the statistics.

Examples of this may be found in the effect of re-assessment years upon gross assessments on property and the converse effect upon deductions therefrom ; or in the relation between Sch. A on Lands and Sch. B, or Sch. A on Houses, etc., and the House Duty figures. A margin of possible error is given, where necessary, adequate for all purposes—in many cases where an estimate has been given for one factor over a certain period, and comparisons are made within that period, it is unnecessary to take the whole range of error given ; it may be read for *both* years as plus, or for *both* as minus, because any error will be constant in direction for that period. Only the final results have been brought into the main tables, for the complicated details in the adjustments would be confusing in ordinary reference. In the main tables the ordinary official figures have been given together with the revised figures, where necessary, to facilitate reference and identification.

I have not attempted to make this book “readable” in the ordinary sense, but to provide a work useful for reference, and valuable in *conjunction* with the current official reports, or largely in *substitution* for the older official tables. I have accordingly been content to summarise many points briefly, where an indication of their character will be sufficient to inform the investigator, or to warn the unwary. Generally speaking, where such matters have been fully dealt with elsewhere, I have been most brief, but where the considerations are being urged for the first time I have felt it necessary to elaborate them more fully. The adoption of such a principle has alone prevented the book assuming excessive proportions. Reference has been made to all matter coming to my notice which is likely to be of real use in pursuing investigations based upon these data. The results of actual observations lasting for some years or covering a great number of cases have generally been conveyed in a few lines, while “workings” for the tables, the methods employed, the adjustment required, and the evidence relied upon are given briefly in the Appendices.

“The worth of the individual is measured not by his direct achievement, but first and foremost by its value for the whole, the

individual piece of knowledge by its significance for the search after truth. . . . Science is not a mere juxtaposition of individual opinions, but the worker who puts forth effort at any particular spot is conscious that his effort is girt about and sustained by an effort of the whole to which he willingly yields his contribution. . . . Truth won at any particular point is valid and binding throughout.”—
RUDOLF EUCKEN.

“ *And as in Arithmetique, unpractised men must, and Professors themselves may often erre, and cast up false ; so also in any other subject of Reasoning, the ablest, most attentive, and most practised men, may deceive themselves, and inferre false Conclusions. . . . For there can be no certainty of the last Conclusion, without a certainty of all those Affirmations and Negations, on which it was grounded and inferred. . . . In Reasoning of all other things, he that takes up conclusions on the trust of Authors, and doth not fetch them from the first Items in every Reckoning, (which are the significations of names settled by definitions), loses his labour ; and does not know any thing ; but onely believeth.”—HOBBS’ “ Leviathan.”*

PART I.

ANALYSIS AND DESCRIPTION OF OFFICIAL STATISTICS AND THEIR USES.



CHAPTER I.

SCHEDULE A. REAL PROPERTY.

INCOME FROM OWNERSHIP OF LAND, HOUSES, ETC.

INCOME tax, Sch. A, commonly known as the "Property Tax," is that section which deals with profits from the ownership of lands, houses, etc., and every description of property in the nature of realty. The assessments are re-made periodically, the poor law parish being the unit of grouping for property, and the poor rate order and form are adopted as a basis by the Imperial authorities.¹ All properties are reviewed (with a few exceptions mentioned hereafter), whether those interested in them are liable to income tax or not, so that the statistics are very complete.

GROSS INCOME UNDER SCHEDULE A.

"**Gross Income**" stands for "gross assessments" which are made upon the "annual value" determined according to statutory rules. "Gross income" is not, therefore,

¹ Official evidence on the procedure in making new Sch. A and B assessments may be found in the following (*inter alia*) :—

S. C. on Burdens affecting Real Property, 1846, Qs. 1,900, etc.

S. C. on Income Tax, 1851-2, Qs. 1,350, etc.

R. C. on Agricultural Depression, 1896, Qs. 45,420, etc.

S. C. on Poor Rate Assessments: T. Sargent, Secretary to Board of Inland Revenue, Qs. 6,316, etc.

R. C. on Land in Wales, 1893-6, Qs. 76,545, etc.
13th Report.

necessarily the same as the gross *actual* income received or enjoyed, nor is the "income on which tax was received" the same as the actual net income received and enjoyed. The various rents paid, or beneficial occupations enjoyed, in connection with the ownership of lands, houses, etc., have to be brought to a common denominator of "annual value." Thus the rents of five premises of identical "annual value" may be all different—the first being let at a low rent on a long lease,¹ the second let by the year, the third at a high rent by the week, the fourth at a higher rent, owner paying tenant's rates, and the fifth may be let at a conventional or nominal rent, the tenant having a beneficial occupation, or being himself responsible for creating part of the "annual value." The use of a common denominator is very valuable from a statistical point of view, since it secures uniformity as regards both time and space, and makes comparisons perfectly valid between distant places or periods, as well as between different classes of property. But it has the slight disadvantage that it is a legal conception which, over part of the field at any rate, does not correspond to popular conceptions of "rent."

DEFINITIONS OF "ANNUAL VALUE."—The legal definitions of "**annual value**" are not quite identical throughout the United Kingdom.

COMPARABILITY OF DIFFERENT AREAS.

METROPOLIS: ANNUAL VALUE.—"Gross value" means the annual rent which a tenant might reasonably be expected, taking one year with another, to pay for a hereditament, if the tenant undertook to pay all usual tenant's rates and taxes, and the tithe commutation rentcharge, if any, and if the landlord undertook to bear the cost of the repairs and insurance, and the other expenses, if any, necessary to maintain the hereditament in a state to command that rent.²

¹ On the general and much misunderstood question of taxation of leaseholds, and the "wasting asset" difficulty, *vide* my article in *Economic Review*, July, 1911.

² 32 & 33 Vict. c. 67, s. 4.

This definition is for rating purposes, but as the gross value is binding for income tax (Sch. A) and House Duty as the annual value, it is material to examine the conditions under which it is arrived at. Periodical conferences of London rating authorities pass resolutions which make for uniform practice, and the following cases taken from them illustrate general principles:—

(a) Weekly and monthly tenancies. A scale is provided in which the gross value is always below the full net rent for the year after deducting rates—*e.g.*, 10s. per week, owner paying rates at 6s. in £, or in actual amount £4 10s. per annum, is not £21 10s. gross, but £19;¹ and similarly 20s. per week is not £52 — £9 = £43, but £37.²

(b) For quarterly and yearly tenancies and ordinary three years' agreements the actual rent is taken as the "gross value."³

(c) For agreements longer than three years, tenant doing inside repairs, 5 per cent. is added to the rent to arrive at gross value.³

(d) In the case of a repairing lease, 10 per cent. is added.³

"In London a householder is subject to a rather vexatious anomaly, which might well be removed, on account of the local assessments for House Duty and income tax under the Metropolis Valuation Act. The Act says that each house is to be assessed at the annual value. Inasmuch as a yearly tenant generally pays more than a tenant on lease, the assessors say that the annual value of a house is what a yearly tenant would pay, and they stick on £10 per cent. when they are dealing with a leasehold."—HUGH CHISHOLM, "Justice for the Taxpayer," *Fortnightly Review*, March, 1897.

The practice for income tax purposes is similar outside the metropolis. In any case, the "vexatious anomaly" is not very clear.

ENGLAND AND WALES (NOT INCLUDING METROPOLIS⁴):
ANNUAL VALUE.—"The annual value of lands, tenements,

¹ In theory higher rents may be expected to be chargeable "by the week," and the value to be let "by the year" is not necessarily the aggregate of the weekly payments. Moreover, it is a rating practice to allow a "contingency" balance or margin.

² Assessment and Valuation Conference, 1909, Resolutions, p. 4.

³ *Ibid.*, p. 6.

⁴ Since 1870.

hereditaments or heritages charged under Schedule A shall be understood to be the rent by the year at which the same are let at rackrent . . . fixed by agreement within . . . seven years," or "if not let at rackrent, then at the rackrent at which the same are worth to be let by the year." ¹

(Other items of Sch. A, non-commuted tithes, manorial rights, etc., are assessed under special rules; see pp. 44, 48).

The official definition of "rack rent" is well known, and is practically identical in its terms with that given for the metropolis above. But whereas the gross value for the poor rate is binding for Sch. A in the metropolis, outside the metropolis the assessments are quite independent of the values for local purposes. The conditions governing assessments may, however, be taken to be broadly similar to those quoted above from the Metropolitan Valuation Conference resolutions.

SCOTLAND: ANNUAL VALUE.—For rating purposes one uniform valuation exists, upon which all public assessments are based, and it is revised annually.² The county and burgh authorities appoint assessors for the purpose. Very frequently, with Treasury approval,³ they appoint the Government surveyor of taxes as assessor, and it is provided by law that the values in the valuation roll are conclusive also for income tax (Sch. A, B) and House Duty ⁴ *except* where the surveyor is *not* assessor.⁴ In 23 out of 33 counties and 46 out of 85 burghs the surveyors act as assessors,⁵ so that it is clear that over a considerable part of Scotland rating law governs or influences the income tax assessments.⁶ In

¹ 5 & 6 Vict. c. 35, s. 60.

² 17 & 18 Vict. c. 91.

³ 52 & 53 Vict. c. 50, s. 83.

⁴ 20 & 21 Vict. c. 58, s. 3.

⁵ D. C. on Imperial and Local Taxation, 1912, Q. 11,475. Owing to the fact that Edinburgh and Glasgow are not included, the amount of the valuation made by the surveyors is slightly less than half the total—£16,186,000 against £16,694,000. In 1892 the numbers were 30 counties and 42 burghs (Armour's "Valuation of Property for Rating in Scotland," p. 23).

⁶ *Vide* evidence before S. C. on Valuation of Lands and Assessments (Scotland) Bill, by W. Munro, valuation assessor and surveyor of taxes, Qs. 1,456, etc. Also A. Nisbet before S. C. on Rating of Machinery Bill, 1887, and F. S. Allan before S. C. on Valuation of Lands and Heritages, Scotland, 1865.

the remaining part, the ordinary Income Tax Acts apply, as in England and Wales. The "yearly value" as defined by the Valuation Act is "the rent at which, one year with another, such lands and heritages might in their actual state be reasonably expected to let from year to year . . . and where such lands and heritages are *bonâ fide* let for a yearly rent conditioned as the fair annual value thereof, without grassum or consideration other than the rent, such rent shall be taken. . . . Provided always, that if such lands and heritages be let upon a lease the stipulated duration of which is more than twenty-one years from the date of entry . . . the rent payable . . . shall not necessarily be assessed as the yearly rent or value . . ." ¹

For rating purposes this actually substituted the *gross rent* for the *net* rent (after average repairs and other expenses and public charges had been deducted) as contained in the Poor Law (Scotland) Act of 1845. For many years no improvements, even if permanent, could be entered in the valuation roll if they were voluntarily made by a tenant holding under a *bonâ fide* lease of less than twenty-one years' duration and without "grassum" or consideration other than the rent ²—this was remedied by statute in 1895, when the whole property as improved could be dealt with, and included in the Income Tax Assessments.

Effect of Rates on Annual Value.

Scotland.—A point of greater importance in comparing "gross value" in Scotland with "gross value" elsewhere is the effect of the difference in rating law and practice as to payment of rates by owners. The Income Tax Act, 1842, naturally made provision that where owners had agreed to pay rates, taxes, and other charges which by law were a charge on tenants, such payments should be deducted from the gross rent in order to arrive at the "gross assessment." The Scottish law provides for a part of the rates to be paid by the owner, and the new or "yearly value" for

¹ 17 & 18 Vict. c. 91, s. 6. See also D. C. on Imperial and Local Taxation, 1912, evidence by H. T. Eve.

² Armour, p. 207.

rating purposes is taken to be the yearly rent, and is binding (for the greater part of Scotland) upon the income tax, Sch. A, so that the gross tax assessments in Scotland exceed those in England, in identical circumstances, by the amount of the rates borne by the owner. In 1856 an Act was passed "to grant relief in assessing the Income Tax on lands in Scotland in respect of certain Public Burdens charged thereon," being the public rates, etc., which in England are by law a charge on occupiers. The allowance is made as a *deduction in the assessment*, and not in arriving at the gross value, so that Scottish values exceed corresponding English ones, although *net* assessments may be quite comparable. There are, however, several small anomalies arising out of this difference that may most clearly be seen from an example :

A house is let in England at £36 per annum, the tenant paying £12 rates. A similar house is let in Scotland at £42 per annum, the owner paying £6 rates and the tenant paying £6 also. (It will be observed that the owners' net incomes are the same, and repairs will be taken to be actually the same in the two cases.)

		Deductions.			
	Gross.	Repairs (½th).	Public Burdens.	Net Asst.	House Duty.
	£	£	£	£	£
England	36	6	—	30	36
Scotland	42	7	6	29	42

The effect upon the statistics when used for many purposes is sufficiently important to warrant close examination. The actual amount of "public burdens" allowed is not now shown separately. It is included in "other deductions" at the foot of the main table, Sch. A. For 1910-11, "other deductions" amount to £2,154,884 for England and Wales from a total gross assessment of £233,906,688, whereas for Scotland they amount to £2,713,025 out of a total gross of £26,944,348.¹ The disproportion is mainly accounted for by this item of "public burdens." In the last year for which separate details were given (1899-1900) they amounted to £1,352,265, out of about £1,393,000 total "other deductions";²

¹ 55th Report, p. 105.

² 44th Report, p. 118.

the gross assessment for Scotland amounted to £22,949,891, and so exceeded the gross assessment, according to the English method, by 6 per cent. (For further details of the deductions see p. 60, Effect on House Duty, p. 133, and Repairs, p. 61.)

The effect of this peculiarity is much more important in a comparison of places than in one of periods.

Speaking generally, when correction has been made for this item, there is no *substantial* difference in the method of arriving at the "gross assessment" over the whole of Great Britain, although there are some slight differences in local customs as to the repairs that owners of dwelling-houses undertake and as to fixtures customarily let with houses.

Ireland.—Here the position is very different. The gross assessments are bound by Griffith's valuation, now fifty years old, and bear no regular or necessary relation to the facts of any given case. But at the time of the valuation, after elaborate instructions to the valuers they were told that the value was "to be the rent which a liberal landlord would obtain from a solvent tenant for a term of years, rates, taxes, etc., being paid by the tenant."¹ This, however, applied to buildings only; and land was valued on an entirely different basis. The whole question of Irish assessment is full of difficulties from a statistical point of view, and will be separately dealt with in Chapter IV.

The movement of values of land in Ireland is sometimes *compared* with the increases in England, when of course no comparison is possible. *E.g.*, Royal Agric. Soc. Trans., 1878, the "small rise in Ireland" 1857 to 1875 is compared with 21 per cent. and 26 per cent. elsewhere.

THE RELATION BETWEEN THE LEGAL VALUE AS DEFINED AND THE TRUE VALUE (GREAT BRITAIN).

Assuming that assessments are accurately made according to definitions, and are always up to date, how **closely does the statutory gross value, as defined, approach the real value as popularly understood?** It was remarked above that over

¹ Griffith's "Instructions to Valuers in Ireland," 1853, p. 80.

part of the field the legal conception and the popular conception are not identical ; but fortunately they are alike over a sufficiently wide range for the idea of the properties of the whole country let uniformly at rack rent by the year, tenant paying rates and owner doing repairs, to be fairly easily received and apprehended. Dr. Bowley asks, " What is the relation between assessed value of houses and their true value ? " ¹ Does he mean by this a true value in a hypothetical common denominator or measure, enabling unlike expressions to be aggregated ? or true value in the sense of current expressions (8s. 6d. per week, £70 per annum on seven, fourteen, or twenty-one years' lease, £30 per annum three years' agreement, and so on) ? If the latter is intended, then the answer must be given piecemeal, ² and no one conspectus of the aggregate is possible, because these terms cannot be aggregated. If an answer as to the aggregate is required, then that annual value, which is a hypothetical expression for many of the cases, must perforce be taken.

This is in some instances to postulate a demand curve running practically parallel to the demand curve of ordinary terms—the mere translation of a " weekly rent " into a rent *ex rates*, and the translation of that result into a yearly rent, after allowing a contingency margin. But when we come to another class of properties which are nowhere let on the terms required by the definition, we postulate an *imaginary* demand curve for those terms. Thus the attempt to get the annual value of a large isolated country mansion or residence such as Chatsworth or Arundel Castle, or of a town hall, strictly according to the definition, leads us dangerously near the ridiculous, and it is a moot point whether the value, year by year, on such terms is not zero. As a fact, we really modify our definition, and almost forsake the hypothetical demand curve, falling back in practice upon the supply curve, *i.e.*, the reasonable rate of interest on the building outlay which would be necessary to call forth that outlay. ³

¹ " Improvement of Official Statistics," S. J. 1908.

² As above, p. 16.

³ For a fuller discussion of the difficulties attending the valuation of the properties, see " Land Valuation and Rating Reform," *Economic Journal*, March, 1911, by the writer. Also " Rating of Country

Two cases where the value as defined differs from the "rent" as commonly used may be mentioned as additional to those referred to on p. 16. The first is the **labourer's**, or **estate, cottage**, in rural districts, let at a nominal or conventional "rent," but assessed on its rack rental value.

The second is the **public-house** tied to a brewer, where the tenant pays a rent less than the rent which would be required from a free tenant, and makes up the balance in the less advantageous terms upon which he is entitled to purchase his beer, etc. This difference is not really what is ordinarily known as "beneficial occupation," because a full rent is really paid, but in a different form. Similarly the rent paid by the brewer to the superior landlord may exceed the rack rental value of the definition, the excess being an expense of the brewer's investment in obtaining a market, and having no relation to the rent a *tenant* would afford to pay. Where brewers are competing for tied houses belonging to private owners, it is a nice point whether the rack rental value should be decided as in a brewer's market, or in a market for tenants (who will be the actual occupiers).

It is generally and rightly considered that the weakest part of rating and assessment is the treatment of "owner-occupied" property.¹ Failing the test of practical letting, value must be a matter of judgment which will be nearer the truth according to the extent to which valid comparison is possible. Probably the statistical importance of the deviation from "rental" truth is insignificant, although expert valuers are perhaps inclined to emphasise it. It is true that for neither local nor imperial purposes is the machinery of valuation strong enough, or rather fine enough, to do the work with exactness. But approximation to a general rental standard is certainly sufficient for ordinary purposes, although it fails to satisfy some experts. Mr. H. T. Eve, in evidence before the D. C. on Imperial and Local Taxation,

Mansions," an article in the Transactions of the Surveyors' Institute, 1874-5, p. 177.

¹ For the significance of this as "income" in the case of dwelling-houses, *vide* Chapter XII., "The National Income." For its importance in the case of factories, etc., *vide* Chapter VI., "Sch. D —Buildings."

recently declared that in rating the property in unions he found the rent was too high or too low as a representation of real value in 50 per cent. of the cases ! When asked whether he was not "too much of an artist," he said that "many rents are fixed by many minds at many times," but in valuation "one rent is fixed by one mind at one time." Commenting upon the value of the services of the surveyor of taxes in Scotland for rating valuation, he remarked that in Scotland he *must* assess on the basis of rent by law, and however useful the surveyor might be there he would fail in England, under the Rating Act of 1836, to find what property is *worth to be let* from year to year—the real distinction.

Woodlands and Timber.

"It may be urged that timber goes with the land, and is included in the valuation of the land, but this is not so according to the method of income tax returns. The real income from woods and plantations is not included in Sch. A, but only an assumed agricultural or prairie value . . . 100 million £ for woods and forests."—GIFFEN, "The Growth of Capital," 1889, p. 18.

Income from the sale of timber is *regarded* as covered by the Sch. A assessments on the land on which the timber grows. The assessments usually correspond with poor rate valuation, and the peculiarities of rating law in this respect are fully set out in standard works on rating, but they may be briefly mentioned here. The governing Act, of 1874 gives three classes : (1) Land used only as a plantation or a wood, where the value is to be taken as though divested of timber and in a natural, unimproved, or "prairie" state ; (2) land used exclusively for growth of *saleable underwood*—to be valued in full, as if let for that purpose ; (3) land used for both the foregoing purposes—to be valued on either method according to the discretion of the assessment committee.

On a representation from the British Timber Conference the Local Government Board circularised the assessment committees recently, calling attention to these provisions. Appeals against valuations of woodlands have been very

numerous in late years, and they now stand mostly in relation to class (1), on an artificial "prairie" value, and it is doubtful whether, in strictness, this should be a governing consideration for the Sch. A value. It should be understood, of course, that the shooting is separately valued, and *added* to the value of the woodlands.

There is far more point in Giffen's argument now than when he wrote, because at that date the ratings of woodlands were much higher and nearer to the true full annual value for all purposes.¹

The next question, and the more important one, is : **How closely do the assessments as made in practice approach the true values as perfectly assessed in theory ?**

COMPARISON WITH THE POOR RATE.

It is generally acknowledged that the income tax, Sch. A, assessments are the best approach to the true values that we possess.² In the metropolis, in Ireland, and most parts of Scotland it has no advantage over the poor rate because it is made upon the same figures. But in England and Wales, apart from the metropolis, it is always considered to be superior. A great feature of the early Reports was a comparison of the Sch. A totals with the corresponding totals of the poor rate, the figures being adjusted so as to relate to exactly the same properties. This was often given in great detail by counties, showing clearly in which counties the poor rate was most below the rack rental. This is not to say that in such counties the poor rate was the *worst*,—we should apply such an adjective to the relative correctness of the *parts* ; and it is often found that a low-rated parish has its ratings in excellent proportion to each other, where a parish in which the aggregate is practically correct abounds in anomalies, ratings erroneous both in excess and deficiency. The local authorities have statutory right of obtaining information upon the Sch. A assessments, and of late years have availed themselves so freely of it that a much closer

¹ *Vide* the interesting examples of assessments, in different circumstances, to include the *average* value of large timber in Senior's "Income Tax Law and Practice," 1864, pp. 206-9.

² R. C. on Agriculture, 1896, Lord Milner, Q. 63,358.

approximation now exists between the totals of the two valuations.¹

The influence of the poor rate valuations and the Sch. A assessments upon each other, reciprocally, has often been misunderstood. It is true that the poor rates are used as a *basis* for the Sch. A assessment, so far as the skeleton plan is concerned, but the amount of the assessments can be quite independent of the ratings. There was provision for the Sch. A assessments being based upon a "scale" of poor rate values in each parish, but this never meant anything else than taking a number of sample properties whose aggregate *rack rentals were known*, finding the aggregate *rateable* values of the same properties, and using the comparative totals as a *ratio* for use where rack rentals were not independently known or obtainable.² It was theoretically impossible, after the Parochial Assessments Act, 1836, to carry out the provision as to scales, but as the ratings did not hasten to amend themselves under that Act there was no difficulty in practice.³

A specimen of the adjustment and comparison made in the early Reports is given below (Metropolis, Ireland and Scotland are omitted as the differences are negligible and due to infrequent exceptions to the general agreement) :—

Year 1875-6 (Rest of England).

Poor Rate Assessment.

Total gross estimated rental	£	112,664,631
Total rateable value		95,961,497
Value of property rated, but not assessed under Sch. A ⁴	gross	13,446,279
	rateable	10,765,712
Value of property rated and assessed under Sch. A	gross	99,218,361
	rateable	85,195,785

¹ In many cases this means merely that the poor rate defects plus and minus *balance* each other. For a detailed description of the present condition of rural rating, *vide Economic Journal*, March, 1911, already cited; for the growing use of the Sch. A for the county rate basis, *vide* D. C. on Imperial and Local Taxation, Qs. 10,512-5, 10,522.

² 5 & 6 Vict. c. 35, s. 64, taken from 46 Geo. 3, c. 65.

³ For the general practice as to using the poor rate as a guide, see evidence by T. Sargent, S. C. on Poor Rate Assessments, 1868, Qs. 6,316, 6,381-2, etc. Also R. C. on Agriculture, Q. 45,570.

⁴ Such as quarries, mines, railways, etc.

Sch. A Assessment.

	£
Gross annual value of property rated in the poor rate	109,096,483
Gross annual value of property not rated in the poor rate ¹	721,937
Total	<u>109,818,420</u>

Thus the property rated at £99,218,361 was assessed, Sch. A, at £109,096,483, or practically 11 per cent. more.

In 1876-7 a comparison was given by counties. Anglesea (26·57), Lincoln (25·08), Bedford (20·97), Carnarvon (19·03) were the worst cases, and Northumberland (2·65), Cornwall (5·16), Salop (5·13), and Wilts (6) were the best.

In the Table A1 the information in the different reports is collected to show the progressive improvement in the poor rate.

Leone Levi, pleading for a common unit of valuation, illustrates the necessity by quoting Sch. A against gross estimated rental and rateable value in 1870, and also in 1881-2, but without making any allowance or adjustment for property *rated* but not assessed, so that the comparison is valueless and the difference proves nothing—it would exist even though the rates and income tax values were identical (S. J., 1884).

Goschen gives a table showing rateable value and its proportion to the Sch. A values : 1815 (estimated), 75 per cent. ; 1841, 72·89 per cent. ; 1847, 75 per cent. ; 1856, 70·25 per cent. ; 1868, 70 per cent. The former increased 169 per cent. and the latter 150 per cent. in the interval (Report on Local Taxation, p. 17).

“According to the local taxation returns, the rateable value of farms and farmhouses in England and Wales amounted in 1907 to £30,900,000 . . . if we add for repairs and also add the figures for Scotland, we obtain £38,500,000 as the estimated gross rental of the farms of Great Britain. . . . Sch. A amounted to £42,300,000. Empty property and deductions on appeal would slightly reduce this figure, but if we take it at £41,500,000, it only leaves £3,000,000 in excess of the former figure as the annual value of residential estates, sporting lands, etc. This is almost certainly

¹ Such as Easter offerings, pew rents, interest secured on chapels, etc.

far too low, but there is little doubt that there is considerable undervaluation of such properties, especially when they are inhabited by the owners themselves" ("Rent, Wages and Profits of British Agriculture," *Economist*, 1913, p. 1175).

The first figure appears to be obtained by adding to the "agricultural lands" for 1907 £23,654,000, the value of "other lands, including farm buildings, etc.," £7,278,000 from House of Lords paper 150 of 1900 (the analysis has not been available since). But the actual *gross* estimated rental for these two classes was available (£34,675,567) in the same return for 1899, the Sch. A being £37,110,000. These cover practically the same ground, the difference being due to *valuation*, and not to the *omission* of park lands, sporting, etc., as suggested. The point intended to be made as to a difference in classification is not sound.

Q. "Why is it that the assessment of land for income tax purposes is so very much higher than for local purposes—the difference being about 7 per cent.?"—A. "Gross estimated rental is a column in the rate book which is regarded very differently by different overseers. . . . I find in many cases they deduct the tithe rentcharge before arriving at the gross estimated rental, which of course is wrong. The gross estimated rental should afford the means of comparison between two pieces of land of equal value, one of which may be subject to tithe rentcharge, the other of which may be free." . . . Q. "The tithe mistake, if it were general, would account for £3,000,000 of this?"—A. "Yes, but I do not suppose it is universal . . . it is very common, I fancy. . . . There is a difference of nearly £3,000,000 in comparing the income tax assessment with the gross estimated rental—it might be practically covered by tithe" (Evidence of Mr. W. C. Little before R. C. on Agriculture, Qs. 63,911—63,921).

There is great confusion of thought here, and in so far as the statement of fact is correct it operates in an opposite direction to the explanation intended. Is the tithe separately rated? If it is, and the ratings on the farms are *net*, after tithe is deducted, the principle is the *same* as that under Sch. A. If the tithe is rated, and the farms are rated *gross*, the total must *exceed* Sch. A. If the tithe is not rated and farms are rated *gross*, the totals should agree. The only case in which the explanation is valid is where lands are rated *net*, and the tithe is not rated—a very rare occurrence, no single instance of which has ever come under my notice.

TABLE AI.—Comparison between Value in Income Tax Assessments (Sch. A) and Value in Local Assessments (£000 omitted).

Year.	Local Rate Assessments, Gross Estimated Rental.	Sch. A.	Gross Assessments. Percentage Excess. Re-assessment Years.*
1874-5	97,813	107,690	10.1
1875-6	99,218	109,096	
1876-7*	103,848	115,609	11.3
1877-8	106,031	117,392	
1878-9	107,399	118,966	
1879-80*	111,042	123,107	10.9
1880-1	113,061	124,454	
1881-2	114,040	125,201	
1882-3*	114,819	125,399	9.2
1883-4	116,584	126,390	
1884-5	118,025	127,047	
1885-6*	118,360	127,662	7.8
1886-7	119,860	128,090	
1887-8	120,982	127,988	
1888-9*	118,874	127,469	7.2
1889-90	120,499	128,211	
1890-1	122,158	129,176	
1891-2	123,456	130,359	
1892-3	125,230	131,119	
1893-4*	125,008	134,334	7.3
1894-5	127,287	135,309	
1895-6	129,757	137,015	
1896-7	132,492	138,760	
1897-8	135,161	139,967	3.6
1898-9	Not published.		

This table is perhaps relevant rather to the history and progress of rating than to income tax, since the closer approximation now attained is due to improvements in rating, but some comparison of the two chief valuations we possess is of interest in a work of this kind. No information is available for years subsequent to 1897-8, but there is no doubt from an inspection of the gross totals that the divergence increased considerably in the 1898 and 1903 re-assessments. Local authorities have lately been so active

in revising their ratings, however, that the difference is probably now under 4 per cent.¹

TABLE A2.—**Classification of Rateable Hereditaments, England and Wales.**

Compiled from House of Lords Return 183 of 1906 and other Sources (£000 omitted).

Description.	1870.	Per-centage.	1894.	Per-centage.	1899.	Per-centage.	1906.
Gross Estimated Rental.							
Lands:—							
Agricultural	—	—	37,287	19·3	{ 26,278 8,398	12·4 4·0	23,384
Other	—	—					
Buildings (not farmhouses) . .	—	—	124,946	64·7	141,641	67·0	
Railways	—	—	17,709	9·2	20,114	9·5	
Quarries, etc.	—	—	13,189	6·8	15,028	7·1	
Total of all rateable hereditaments (excluding Crown property)	123,000	100	193,131	100	211,459	100	254,888
Rateable Value.							
Lands:—							
Agricultural	39,836	38·0	33,655	20·9	{ 24,035 7,278	13·7 4·1	17,461
Other							
Buildings (not farmhouses) . .	55,157	52·6	102,720	63·7	116,436	66·3	
Railways	4,871	4·6	13,871	8·6	15,598	8·9	
Quarries, etc.	5,007	4·8	10,894	6·8	12,277	7·0	
Total of all classes except Crown property.	*104,870	100	161,140	100	174,317	—	205,432
Annual value on which contributions were received from the Government in respect of non-rateable property in the Crown's occupation . .	—	—	—	—	1,306	—	1,635
Total of all classes . .	* —	—	—	—	175,623	100	207,068

* Uncertain as to extent to which Crown occupation is included.

¹ Early details of rateable values for England and Wales may be found in the Poor Law Reports. Appendix XXXII. of R. C. on Agriculture, 1896, gives the following (in thousands):—1841, £62,540; 1847, £67,320; 1850, £67,700; 1856, £71,840 (£86,078 gross †); 1866, £93,638 (£110,079 gross †). Also see H. C. 215 of 1874 and H. C. 461 of 1875: 1867–8, £100,669 (£118,431 gross); 1869–70, £104,405 (£123,365 gross); 1870–1, £107,398 (£126,474 gross); 1871–2, £109,447 (£129,039 gross); 1872–3, £112,318 (£132,453 gross).

† *Vide* F. Purdy, S. J., 1869, "Pressure of Taxation on Real Property."

Vide also S. C. on Burdens affecting Real Property, 1846, p. 17. The rateable value is given as £64,540,030, "below the true figure," Sch. A. being £85,802,735.

H. C. 332, 1860, showed that for 1856, the gross poor rate was 8·9 per cent. below the Sch. A.

Metropolis.—Parish details are given in H. C. 254 of 1854–5:—Total, Sch. A, £13,462,000; county rate, £9,294,300 (rateable value); poor rate, £9,975,600 (rateable value).

Periodical Revaluation : Relative approximation to true facts in intervening years.

Except in Ireland, the income tax, Sch. A, figures undoubtedly represent most closely the real facts, but in revaluation years far more closely than at other times. Indeed, in those years they are probably slightly in excess of the true figures, because many adjustments are made during the collection of the tax (*after* the totals have been made up) and allowed by way of "schedule" or repayment. But in non-valuation years they are, in England and Wales more especially, below the true figure. The reason is that while effect is given in practice to all *bonâ fide* reductions in rents wherever they occur, no effect is, or can be, given to *increases* in rents, and the totals are only maintained by new properties and structural alterations. There is a continuous drag downwards, and the "slack" is not taken up until the next revaluation year. No analysis of the Sch. A totals which omits to recognise this fact can therefore give valid results. As the metropolitan revaluation falls generally in a different year from that for England and Wales (ex. met.), the totals for the two combined rather mask the effect, but if they are taken separately it is very clear.

In Table A3 the effect of revaluation is very obvious, especially in the case of messuages (see particularly 1893-4, 1898-9 and 1903-4). The peculiar history of "Lands" since 1880 serves to mask the effect of revaluation when the two are taken together, for it seems that reductions in the case of farms are most freely made on the occasion of new assessments¹ (see Table A3, 1882-3, 1885-6, 1888-9). Prior to 1876 the effect upon lands was the same as upon buildings—a marked rise in the revaluation year; and when the two are taken together it is cumulative (see especially 1857-8, 1861-2, 1864-5 and 1867-8). This "statutory" result must not be taken as representing the actual facts. Probably the true rise would be represented by a line, practically straight, joining points *slightly* below the position reached in each re-assessment year (*vide* Graph I.).

¹ R. C. on Agricultural Depression, 1896, Qs. 45,575, etc.

If the true increase in a year (TI) consists of the aggregate rent increases (i), minus the aggregate rent decreases (d), plus the value of new structures (s),

$$TI = i - d + s,$$

but the increase shown by Sch. A figures in non-valuation years is

$$s - d,$$

and that shown in a revaluation year is, after four non-valuation years,

$$5i + s - d.$$

Now i can always be found from the formula, and $s - d$ also, but s and d separately are not determinable.

The bearing of the analysis will be clear from the following attempt to use the annual increases exhibited by the figures :

“ The allocation of the new capital of the United Kingdom between different forms of investment cannot be made with any precision on the basis of existing information. The erection of houses on land on the borders of urban areas absorbs much new capital. The gross profits from the ownership of houses, as shown in the reports of the Inland Revenue Commissioners, were greater by £3,155,000 in 1907-8 than in 1906-7, and a further increase of £3,113,000 was shown for 1908-9. Capitalising the indicated increase in revenue at fifteen years' purchase, there is an addition of about £47,000,000 to new capital in the form of houses (including sites) ” (Census of Production, Final Report, p. 32).

In this instance the endeavour was made to capitalise s , but as a matter of fact $s - d$ was taken, and the decrease in rents has been ignored. The result obtained represents a minimum, and the true figure may be much greater.

Any comparison of the annual increases with each other will lead to fallacious results if the effect of re-assessment years is forgotten :—

Examining the connection existing between the average value of building land per head and the wealth per head, Mr. Mallock seeks to show that a constant proportion has existed, and appeals to the “ facts ” :—“ If we take the annual increase in the value of houses, as given in the Statistical Abstract for the years 1893-1907, there are only three years out of the fifteen in which the average was very greatly exceeded. These were the years 1898, 1901, and 1903. Now for the two years following the year 1893, the gross amount assessed to income tax exhibited a continuous

decline, and had in 1896 not so much as recovered its previous level. In 1897 it exceeded this by £30,000,000. Next year the increase in the value of houses rose to nearly twice the average. Two years later, in 1900, the gross amount assessed to income tax showed an increase on the previous year of £42,000,000. The year following (1903) the increase in the value of houses exceeded the average by more than 50 per cent. . . . But not only do the figures thus show us the close connection between the increase in total income and the increase in the gross value of houses. They also show us that with each fall in the increase of gross income the increase in the gross value of houses in a similar way falls. Thus after the record increase in gross income in 1897, with record increase in the value of houses that followed it, the annual increase in the gross value of houses sank to one half of the maximum to which the record year had raised it. In 1902 the same phenomenon repeated itself. The increase in gross income was £42,000,000 in 1900, and £33,000,000 in 1901. In 1903 it was not more than £13,000,000. The increase in the gross value of houses was, in 1904, less than one half of what it had been in 1903. . . . These facts show that the amount which the population will consent to spend in house rent . . . is limited by the amount per head which the population has to spend on its wants and enjoyments."

Mr. Mallock omits (a) to look at the 1893-4 increase over 1892-3; (b) to observe that statutory as well as commercial reasons account for a stationary state in 1896 gross income (*vide*, p. 288); (c) to take account of 1893-4, 1898-9, and 1903-4 as re-assessment years—although warned by a footnote—and of 1901-2 as a year of revaluation in the metropolis. The whole "connection" falls to the ground.

Mr. Mallock proceeds in a similar manner to show that when there is a special increase in dwelling-house values, there is also one in business premises! But this is alleged to have ceased about 1903. After much manipulation of the figures in the Statistical Abstract (Table 21, Inhabited House Duty) and confusion through mixing the columns, he concludes that business premises are falling in value or stagnant, while dwelling-houses increase in value. He finds "the clue to the riddle" in the table dealing with foreign investments, Sch. D, in which, after 1903, a marked advance in the rate of increase is shown! It is unnecessary to labour his conclusion, since the premises are worthless ("Phantom Millions," *Nineteenth Century*, November, 1909).

An examination of Table A3 shows that, of a total increase of £39,000,000 in messuages, 1845-6 to 1870-1, England

and Wales, £24,000,000, or 62 per cent., was registered in the eight assessment years, and only 28 per cent. in the other seventeen years. For messuages (England and Wales, extra-met.), 1871-2 to 1910-11, the increase was £93,500,000, of which £40,000,000, or 43 per cent., took place in ten valuation years, and the remainder in thirty ordinary years. So in the first period the normal rise or surplus of new structures over rent decreases was just under one million pounds per annum, while the amount of increased rents taken up on each revaluation was about two millions, or two thirds of a million per annum. For the second period, the ordinary surplus ($s-d$) was over one and two-third millions, the increased rents for valuation were two and a third millions, or just over half a million annually.

Just as the effect of revaluation may be to cause the assessments to lag behind the true values when ascending, so there are sometimes reasons why they should also descend less rapidly. In the case of houses, first, in a town where there has been great overbuilding, and there are many houses standing empty, such houses remain in the assessments at the old rents until, upon re-occupation at lower rents, the assessments are reduced. A re-assessment year affords a statutory opportunity for putting them all upon the correct basis, and if there has been a general fall in rents, the aggregate for all houses, occupied or void, may be suddenly much less than before the re-assessment. Secondly, with regard to lands, in time of depression reductions of rent commonly start as temporary abatements or remissions, which, made year by year, end in becoming permanent.¹

This point is well dealt with by R. J. Thompson, "An Enquiry into the Rent of Agricultural Land in England and Wales during the Nineteenth Century."² He constructed a table and graph showing index numbers for rents of specimen estates, income tax values, and Sauerbeck's price index number for each year from 1846 to 1900.

¹ *Economic Journal*, *ibid.*, March, 1911. See also R. C. on Agricultural Depression, 1896, Q. 45,589, etc., as to the effect of mortgages, R. C. on Depression in Trade, 1886, Q. 743; R. C. on Land in Wales, 1893-6, Qs. 76,545, etc.

² *S. J.* 1907.

He remarks : " Looking at this table, it will be seen that the income tax figures in column 3 start at practically the same level as the rent figures in column 1, and in 1851 showed a decline corresponding to the fall in column 1, which was the result of the short period of depression in prices which occurred in 1849-52. The influence of the decline in rents operated in the case of the income tax returns until 1856, from which date a steady rise set in and continued until 1879, though the influence of the triennial valuation is very well marked.

" The income tax figures moved much more slowly than the rent figures. It is interesting to notice that they stood several points above the figures for rent in each of the periods of depression, for instance in 1849-53, 1864-67, 1870-2, and 1879-1900, whereas in prosperous times of rising rents they are usually a few points lower. This is only natural, as their adjustment must come subsequent to alterations in rent ; but there is, I think, another reason why they should remain higher than a falling rent, viz., that, as explained above, abatements and deductions are not shown in the income tax figures, which represent the gross rent payable under agreement. The rent curve, on the other hand, shows only the rent actually received, and it must be remembered that the decline in rent is very largely caused by abatements, which are called ' temporary ' for several years (and sometimes for long periods) before they are made permanent. It is natural, therefore, that the rent curves should reach a lower point and reach it earlier than do the income tax figures. The latter attained their lowest point in 1900, when they stood nine points below what they were fifty-four years earlier."

The metropolitan values since 1871 have been dealt with by Mr. J. Calvert Spensley :—

" These figures " (totals of supplemental valuation lists) " may be taken to fairly represent the case, for although in the £11,873,819 there is probably included some increment of value . . . on the other hand, there is no doubt a considerable amount of decrement of value, due to the fact that an individual ratepayer will procure a reduction of assessment consequent upon a decreased rent, while he will not declare an increase of his rent until he is required to do so at the next quinquennial valuation " (*S. J.*, 1903, p. 73).

Vide also Mr. Sidney Webb's use of the metropolitan valuation lists to show the increase due to new buildings, and the " unearned increment " ; *S. C. on Town Holdings*, 1890, p. 341 ; and *Criticisms*, 1891, p. 136.

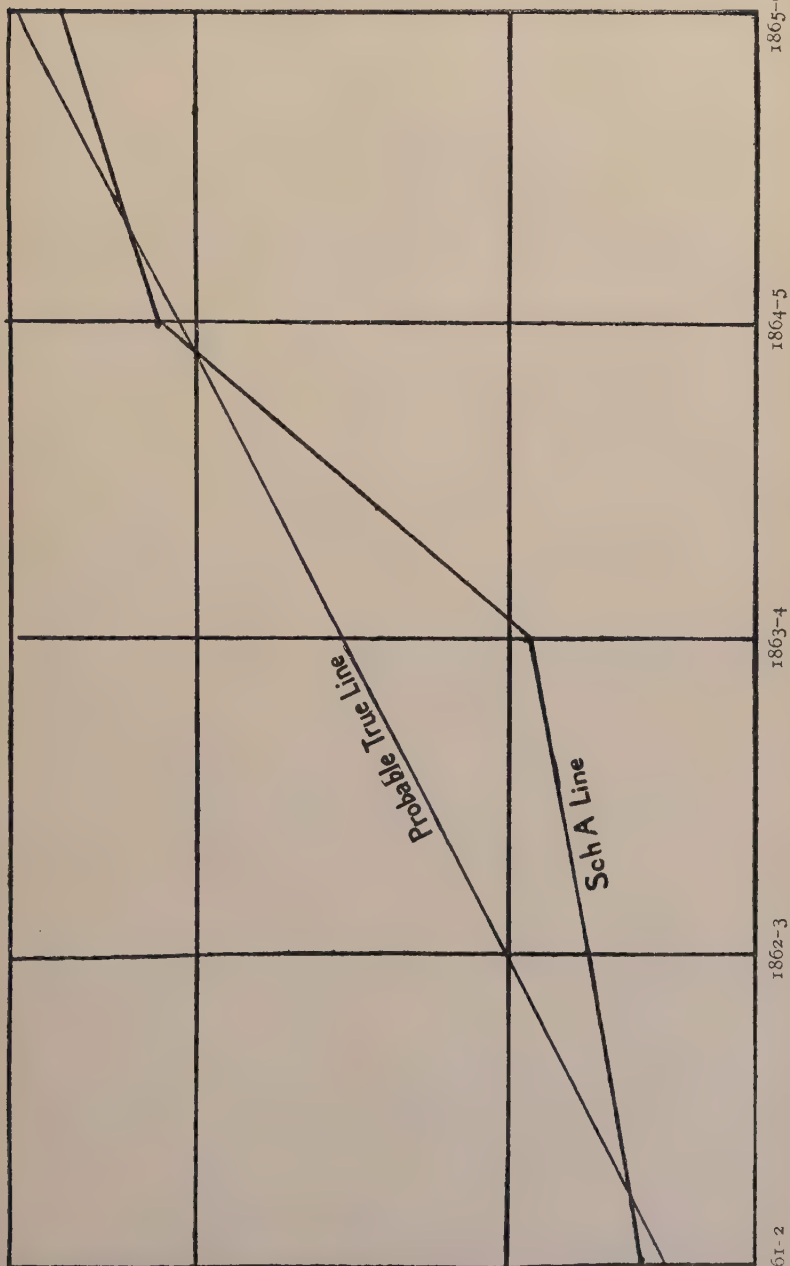
TABLE A3.—Effect of Re-assessment Years.
Gross Sch. A. England and Wales (£000 omitted).
(Excluding Metropolis after 1870-71.)

Year.	Lands.	Messages.	Total.	Year.	Lands.	Messages.	Total.
1842-3 ¹	40,167	35,556	75,723	1876-71	51,671	64,075	115,746
43-4	} Not distinguished.			77-8	51,882	66,006	117,888
44-5				78-9	51,519	67,689	119,208
45-6 ¹	41,227	36,576	77,803	79-80 ¹	51,673	71,680	123,353
46-7	41,215	37,010	78,225	80-1	51,477	73,262	124,739
47-8	41,180	37,282	78,462	81-2	51,062	74,443	125,505
48-9 ¹	42,348	38,822	81,170	82-3 ¹	48,283	77,360	125,643
49-50	42,329	39,056	81,385	83-4	47,839	78,839	126,678
50-1	42,290	39,354	81,644	84-5	47,483	79,872	127,355
51-2 ¹	41,118	40,047	81,165	85-6 ¹	45,884	81,966	127,850
52-3	41,086	40,621	81,707	86-7	45,277	83,034	128,311
53-4 ¹	41,085	42,828	83,913	87-8	44,374	83,848	128,222
54-5	41,237	43,425	84,662	88-9 ¹	42,176	85,528	127,704
55-6	41,118	44,710	85,828	89-90	41,702	86,752	128,454
56-7	41,177	44,994	86,171	90-1	41,288	88,143	129,431
57-8 ¹	42,685	47,439	90,124	91-2	41,041	89,589	130,630
58-9	42,702	48,138	90,840	92-3	40,718	90,686	131,404
59-60	42,940	48,779	91,719	93-4 ¹	39,980	94,524	134,504
60-1	42,976	49,505	92,481	94-5	39,596	96,060	135,656
61-2 ¹	44,639	53,235	97,874	95-6	39,283	98,059	137,342
62-3	44,611	54,104	98,715	96-7	38,745	100,404	139,119
63-4	44,672	55,121	99,793	97-8	38,003	102,272	140,335
64-5 ¹	46,403	59,286	105,689	98-9 ¹	37,220	109,144	146,364
65-6	46,422	60,812	107,234	99-0	37,034	112,227	149,261
66-7	46,492	62,467	108,959	1900-1	36,867	115,518	152,385
67-8 ¹	47,711	68,013	115,724	01-2	36,728	118,500	155,228
68-9	47,744	69,540	117,284	02-3	36,545	121,249	157,794
69-70	47,803	70,949	118,752	03-4 ¹	36,847	129,597	166,444
70-1	48,938	75,307	124,245	04-5	36,619	132,144	168,763
71-2	48,810	75,594	124,404	05-6	36,534	135,134	171,668
72-3	48,858	75,585	124,443	06-7	36,412	137,566	173,978
73-4 ¹	49,772	77,205	126,977	07-8	36,256	138,249	174,505
74-5	49,977	77,954	127,931	08-9	36,312	142,141	178,453
75-6	50,069	79,286	129,355	09-10	36,297	144,290	180,587
				10-11 ¹	36,773	147,038	183,811
				11-12	36,723	148,980	185,703
				12-13	36,745	150,636	187,381

¹ Re-assessment year.

GRAPH II. ANALYSIS OF GRAPH I.

trillion
£
107

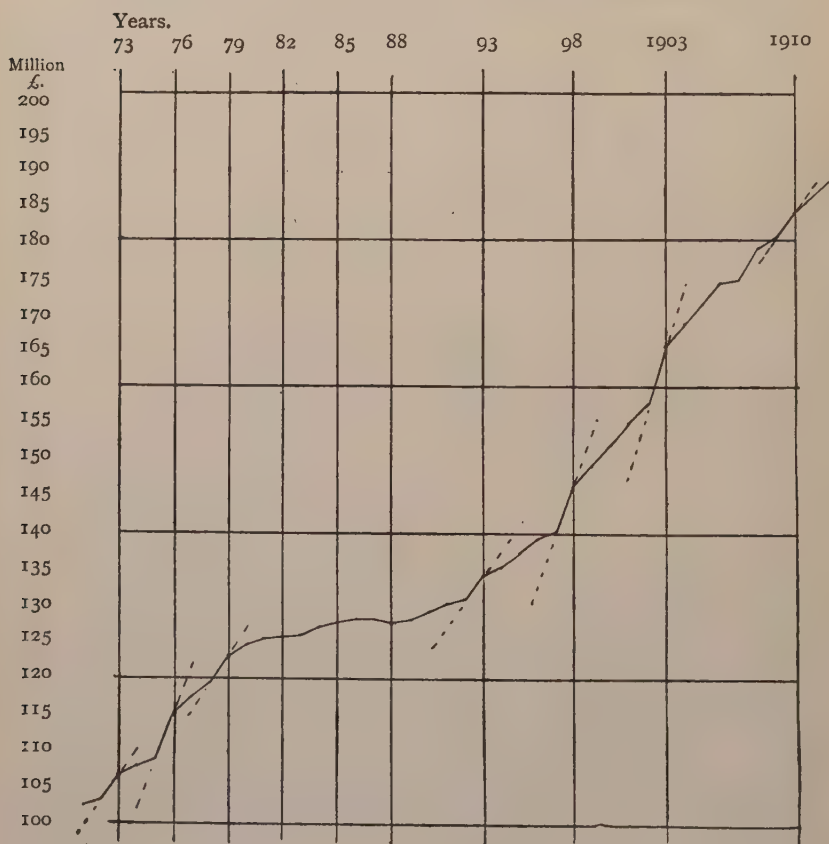


GRAPH III.

GROSS SCHEDULE A, ENGLAND AND WALES (EXCLUDING
METROPOLIS), 1871 TO 1912.

Lands and Messuages together.

Change of direction in Re-assessment Year indicated.

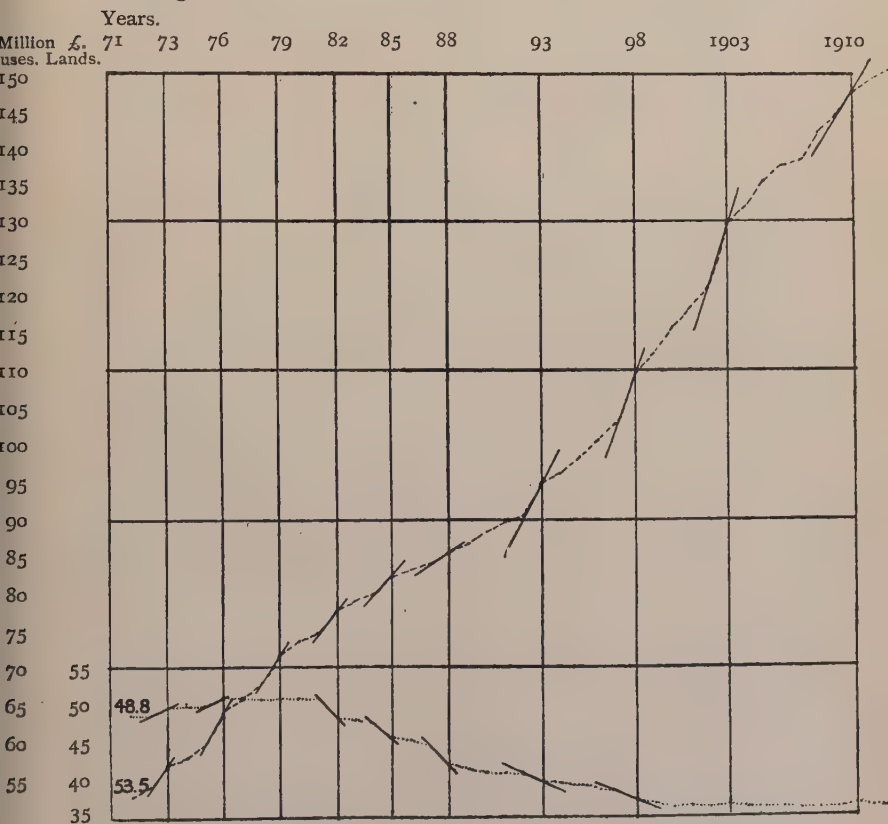


GRAPH IV.

GROSS SCHEDULE A, ENGLAND AND WALES (EXCLUDING METROPOLIS), 1871 TO 1912.

Lands and Messuages shown separately.

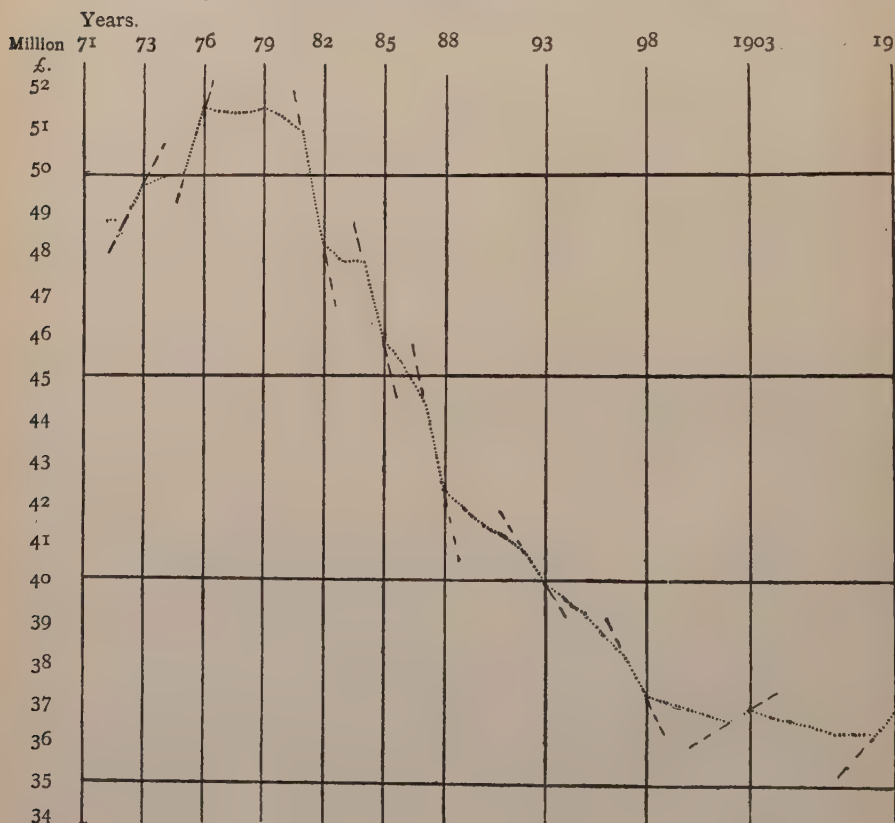
Change of direction in Re-assessment Year indicated.



GRAPH V.

LANDS, ENGLAND AND WALES, 1871 TO 1912 (enlarged scale).

Change of direction in Re-assessment Year indicated.



SCH. A GROSS ASSESSMENTS—SEQUENCE. COMPARABILITY OF DIFFERENT PERIODS.

(1) Legal Changes.

Apart from the regularly recurring effects of revaluation, the gross Sch. A assessments from 1842 down to date are affected by only one statute of importance, and when correction has been made for this change, and for various administrative changes in the statistics, the series remains perhaps the most stable and consistent of all the income tax statistics, reliable and eminently suitable for purposes of comparison with reference to different periods of time.

Peel's Act of 1842 copied the earlier Act in the inclusion of certain trading and profit-making concerns, to which were added railways, under Sch. A instead of Sch. D. They were concerns closely allied to real property, and are known as "Concerns No. III., Sch. A," comprising :—I. Mines of coal, tin, lead, copper, mundic, iron, and other mines. II. Quarries of stone, slate, limestone or chalk ; ironworks, gasworks, salt springs or works, alum mines or works, waterworks, streams of water, canals, inland navigations, docks, drains and levels, fishings, rights of markets and fairs, tolls, railways and other ways, bridges, ferries, cemeteries, and other concerns of the like nature.

By 29 Vict. c. 36 these assessments were transferred to Sch. D as from 1867–8 inclusive, when they amounted to £32,600,000. The reason for the change is given in the Report. Since this date they have been regularly included under Sch. D in the Inland Revenue details, and by a mere "accident of birth" in 1803, such items as salt springs, alum works, and cemeteries have received a degree of distinction in regard to the wealth of record and analysis lavished upon them that has been denied to the cotton, woollen and other staple industries !

The classifications in the 13th Report are somewhat defective for the early years, and in order to eliminate these assessments from the Sch. A totals from 1842 to 1865 inclusive (Table A4) some estimates have been necessary. These have been made with careful regard to the probable

facts of each case—they are negligible in absolute amount, and the possible error is not worth consideration, since it is necessary (a) for each series to be consistent in itself, and (b) for the estimates to aggregate to a known total. The deduction of the total for "Concerns No. III., Sch. A," from the full Sch. A gives the necessary unbroken sequence of figures 1842 to 1912 (Table A4, third part). The corresponding sum is added to Sch. D (see Appendix II. for Table D1).

It is obvious that omission to pay regard to this important "break" would vitiate almost any comparisons. But such omissions have been made on many occasions.

In his essay on "Taxes on Land," Giffen says: "In 1815 the annual value of real property—in other words, the annual return of the business (of land-owning)—was £53,000,000; in 1853 it was £85,000,000; in 1868 it was £143,000,000." This was written in 1871, but the 1904 edition has a footnote: "In 1884 it was £193,000,000, and in 1901-2, the latest year before me, £238,000,000" ("Economic Studies," I., p. 262). The footnote shows clearly that the gross Sch. A for the United Kingdom is intended. The 1815 figure represents England and Wales only, the second figure also represents England and Wales, and should be 1843, not 1853, while the third figure (1868) represents the United Kingdom. The 1815 figures include profits of quarries, mines, and ironworks; the "1853" figure includes, besides these, railways and gasworks profits, but the 1868 and subsequent figures are exclusive of these items.

(2) Administrative Improvement.

There is some reason for believing that the first assessments in 1842 were not very good, from an administrative point of view,¹ and there was probably no great improvement until the general "efficiency campaign" in the early sixties, of which the reports give evidence. But an addition of not exceeding 5 per cent. to these early figures should be an ample addition to make them comparable with later figures. A great deal of attention was certainly given to fine and technical questions in assessment.

¹ Giffen was warned by the Board of Inland Revenue that the assessment in 1842 could not be taken as a fair statement of rental (R. C. on Financial Relations, Q. 7,661).

It appears that the valuation in Wales in the early seventies may have been rather low.¹ As regards the metropolitan valuation, there is some evidence that between 1870 and 1890 there was some "screwing-up," and the increase was not in reality equal to appearances.² But on the whole it may be said with some confidence that in the last forty years there has been no *appreciable* difference in the degree of exactness to which the work of assessment has attained.

SCH. A GROSS ASSESSMENTS—COMPREHENSIVENESS.

"Under this head is included the annual value of every description of property in the nature of realty that can be brought into valuation, but it should be borne in mind that there is a certain class of property which is not subjected to valuation for income tax purposes, viz., property vested in, *and* in the occupation of, the Crown, cathedrals, churches, etc. Further, it should be pointed out that although railways, quarries, mines, etc.,³ are in the nature of real property, the profits therefrom appear in class 4, 'Profits from Businesses, etc. (Sch. D).' It may be observed that the gross assessments represent the annual value of property the owners of which are exempt from income tax on the ground of their total incomes from all sources not exceeding £160 per annum. . . . Further, it includes—*inter alia*—the annual value of colleges and halls in universities, hospitals, public schools, almshouses which are specially exempted."⁴

The points specially to be noted are :—

(1) Omission of **Crown property occupied by the Crown**. Most cases are "occupied" in the ordinary sense, but the word has also a statutory significance. The owner is regarded as, and is assessed as, the statutory occupier of properties "under £10," and properties "let for a less period than a

¹ R. C. on Agriculture, Q. 45,542. Evidence before R. C. on Land in Wales, Q. 76,545, etc., refers to the effect of a change of surveyors in Anglesea, and a note by a "high authority" that assessments prior to 1874 were not well made.

² S. C. on Town Holdings, 1891, Qs. 1845-51, 1993-8, 2003-5.

³ Concerns No. III., Sch. A, *vide* p. 37.

⁴ 52nd Report, p. 145.

year"; small "weekly" cottages are in the "occupation" of the Crown if owned by the Crown, and would be omitted from assessment.

In a consideration of the "Census of Production and Agriculture," Mr. L. W. Wilsden attributes one-nineteenth of the gross production to those who pursue agriculture as a secondary calling, and in order to ascertain the expenditure he takes the income tax figures for total rent and tithe, deducting one-nineteenth. He then remarks that the rent of Crown lands let as agricultural holdings is not included in the tax returns; "this tends to make the balance available for the reward of labour seem larger than it is. This sum should be added to the expenditure side of the account." It is just this class of Crown property which is included in the official statistics (*Economic Review*, April, 1914).

The woodlands belonging to the Crown have been given as 67,000 acres, or $2\frac{1}{4}$ per cent. of the whole (J. Hyder, "The Case for Land Nationalisation," p. 119).

The exact value of the property omitted from assessment is not known, but it cannot be *greater* than the value of property in the occupation of the Crown, *for which contributions in lieu of local rates are paid*, because these cases include not only property owned by the Crown, but also property rented by the Crown. This maximum value is shown in Table A2 for England and Wales as £1,306,000 in 1899 and £1,635,000 in 1906 (rateable values). H. C. 221 and 222 of 1900 give details which I have totalled for present purposes:—

	£
Metropolis	515,194
England and Wales (ex-met.)	832,207
Total—England and Wales	1,347,401
Scotland	101,325
Ireland	158,200
Total	1,606,926

If we add one-fifth to obtain the gross estimated rental, the total is £1,928,000. The actual sum omitted from

assessment is probably between one and one and a half million pounds.

(2) **Omission of places for Divine worship.** This covers chapels, mission-halls, etc., not rated, and reserved for religious uses entirely. Where, however, a mortgage or loan is secured thereon the interest is frequently, but not invariably, charged under Sch. A.

(3) **Concerns under No. III., Sch. A.** It is the property actually in occupation of these concerns for the purposes of the concerns that is omitted—property owned by them, but let, is charged and included. Thus, many assessments exist on property owned by railways.

Although railways and gasworks come under this head, “tramways” and electricity works do not, so that buildings, etc., in occupation and ownership of these latter concerns are assessed Sch. A. But it has not been the practice to assess mains, wires, sewers, etc., even though they be rated.¹

(4) **Sch. A reviews all the property concerned and not merely that part belonging to income tax payers. In this respect it resembles Sch. B, and differs entirely from Schs. D and E.**

This is of importance when the figures for different schedules are aggregated.

(5) **Hospitals** and other charity properties are assessed “gross” in full, and the net amount that would be assessable is allowed as an “exempt” deduction under a special head.

SCH. A GROSS ASSESSMENTS—CLASSIFICATION.

(1) Lands.

The first of the classes making up the total gross assessments under Sch. A. is known as “Lands,” including rent-charges under Tithes Commutation Act, farmhouses, farm buildings, etc.

Definition.—It has been continuously recorded since 1842, and furnishes a very stable series for purposes of

¹ *Ystradyfodwg, etc., Sewerage Board v. Bensted*, 5 T. C. 230.

comparison (*vide* Table A4). "Lands" include woodlands, farm lands, lakes, building land, gardens in excess of the one acre assessed with mansions, etc., to House Duty. *The term does not include farm cottages let with a farm.* The tithes that are not now commuted are insignificant in total amount. The commuted tithes are included on the full gross commutation reckoned upon Willich's tables for the year of new assessment, the rates thereon being allowed as a deduction in the assessment. "Farmhouses" included in "lands" do not comprise all premises commonly so called, but have a statutory meaning, *i.e.*, houses occupied by *tenant* farmers with a farm for the purpose of farming. A "farmhouse" occupied by the owner or let off to a private resident is not included, and it is thus quite possible for the same premises to pass in and out of this category by mere change of occupier (*vide* House Duty, p. 115).

The numbers of these assessments on "lands" is not given; the number of "statutory" farmhouses whose value is over £20 is ascertainable from the House Duty statistics, but the number of those under £20 is not exactly known.

As to how much of this class represents properties belonging to persons exempt, see under Sch. A, Deductions—Exemption, p. 67.

As the amount of tithe not commuted has steadily decreased,¹ for comparative purposes it is best to include all tithes with lands.

Sir R. Giffen (*Quarterly Review*, July, 1909), on the question of increment in land value, quotes the 1843 value of lands as £42,127,000, but the figure for "Lands including Commuted Tithes" is £40,167,088,² and he has rightly added in "Tithes not Commuted" £1,960,331. The figure he *compares* it with in 1906-7 corresponds with the first item only, the "Tithes not Commuted" (now much attenuated) being now included in "Other Property," £888,970, and amounting to about £200,000 (*vide* also Final Report, R. C. on Agriculture, 1896, p. 26; Goschen, "Report on Local Taxation"; Palgrave, "Local Taxation," etc.).

¹ *Vide*, generally, R. C. on Reduction of Tithe Rentcharge, 1892.

² 13th Report, p. 198.

The amount of tithe appearing in the Sch. A classification should be examined in conjunction with works upon the Tithe Acts if its variations are to be understood.

The actual method of assessing tithe may vary, but the aggregate figures are not affected. For instance, it may be included in the gross assessment upon each parcel of land ; it may be separately assessed upon each landowner ; or, as is generally the case, it may be assessed *in cumulo* for a whole parish upon the tithe *receiver*, all assessments upon lands being exclusive of tithe. (In every case, however, the Sch. B assessment will be inclusive of tithe.)

Statistics relating to tithes may be found in the numerous works upon the subject. The gross commutation is commonly taken at about £4,000,000.¹

Garnier quotes Sir James Caird as showing that between 1836 and 1876 the rent of titheable land increased from £33,000,000 to £50,000,000, while the tithe rentcharge remained constant. "In this sense, therefore, the tithe-owner has lost £2,000,000 per annum by the Act of 1836" ("History of English Landed Interest," II., p. 457). This conclusion rather ignores the fact that rents and prices have moved together, and that prices effectively influence the tithe commutation annually. In 1875 the value per £100 was £112 15s. 6d.

(2) Houses, etc.

This class, houses, messuages, tenements, etc., comprises all buildings of every description, except

- (a) farmhouses and farm buildings (see "Lands") ;
- (b) houses owned and occupied by the Crown (see p. 39) ;
- (c) places used for Divine worship ;
- (d) premises owned and occupied by Concerns under No. III., Sch. A. Thus, it includes cotton mills, but not railway stations, though refreshment rooms *let* to contractors

¹ See Wateridge, "Prosperous Agriculture," p. 69. Also Sir T. H. Elliott's memorandum for the R. C. on Agriculture, 1896, Appendix A, p. xvii. Total commuted tithe, £4,054,653 ; extraordinary tithe, about £30,000. Also H. C. 214 of 1887 for counties and parishes.

would be assessed. Properties rented by the Post Office and other Government departments are included.

A sub-classification of this section is made under Inhabited House Duty annually, and notes on the various classes will be found in Chapter III.

These statistics of "buildings" or messuages have frequently been used, in various connections, as evidence of the growth of industry, activity of building, rise in rents, etc.

W. Mathews compares 1870-1 with 1882-3. Buildings rose 45 per cent.—an "extraordinary difference." The increase in population was only 17 per cent., and "it is difficult to resist the conclusion that some other causes than natural increase of buildings must have contributed to the rise in assessment" (Institute of Surveyors, Transactions, 1884, p. 308).

(3) Other Property.

This consists of "manors, fines, certain tithes, certain sporting rights," etc. The details of each were given separately for many years. In the last year for which they were classified (1903-4) we find the descriptions:

(a) "Tithes raised by Rates and other Tithes not arising from the Land":—

Metropolis	£57,600	} £226,394
Rest of England	£168,794	
Scotland	nil	
Ireland	nil	

The basis of assessment is as follows:—Tithes, taken in kind, "dues and money payments in right of the Church¹ or by endowment, or in lieu of tithes (not being tithes arising from lands) and of all teinds arising in Scotland" on an average of the three preceding years; "all tithes arising from lands, if compounded for, and of all rents and other payments in lieu of tithe arising from lands (except rent-charges confirmed under the Act for the Commutation of Tithes) on the amount of such composition, rent or payment for one year preceding."²

¹ Surplice fees, mortuaries, and other items; see the Tithe Act, 1836, s. 90.

² 5 & 6 Vict. c. 35, s. 60 (ii.), repealed so far as the metropolis is concerned by 32 & 33 Vict. c. 67, s. 77.

(b) **Manors, etc.** (1903-4 figures) :— (c) **Fines** (below).

	£	£
Metropolis . . .	6,121	12,558
Rest of England . .	98,176	83,681
Scotland . . .	51,410	—
Ireland . . .	—	74
Total . . .	155,707	96,313

The basis of charge is the average of the seven years preceding the year of assessment. Manorial profits cover “casual profits, fines on admission, alienation, for licence to demise, heriots certain and compositions for heriots.”¹ No allowance is made for cost of collection.²

To a very considerable extent assessments upon manorial profits represent a “legal duplication” of income.³ The annual value of the properties concerned is already assessed in full, and these payments of manorial dues and fines are paid *out of* that annual value. Thus a landowner who has a number of farms assessed in full on their rack rents can *deduct tax* from any mortgage interest or other charges paid by him out of that taxed income, but he *cannot deduct* tax from these manorial payments, though they are equally an expense to him, reducing his income. These payments are assessed *again* upon the recipients. The matter is not of great importance statistically, but these sums should be ignored when annual values are being capitalised.⁴

(c) **Fines.**—The basis of assessment is as follows:—“All fines received in consideration of any demise of lands or tenements (not being parcel of a manor or royalty demisable by the custom thereof) on the amount so received within the year preceding . . . provided that in case the party chargeable shall prove . . . that such fines, or any part thereof, have been applied as productive capital, on which a profit has

¹ Dowell, p. 127 (7th Ed.).

² *Stevens v. Bishop*, (1888) 2 T. C. 249; *Duke of Norfolk v. Lamarque*, (1890) 2 T. C. 579.

³ See the evidence before the S. C. on Income Tax, 1852, and also the S. C. of 1861, and the Report. There was considered to be some evasion under this head (Qs. 2,820, etc., 1852), and H. C. 165 of 1845 gives some material evidence.

⁴ *Vide* p. 405.

arisen or will arise otherwise chargeable under this Act, for the year in which the assessment shall be made, it shall be lawful . . . to discharge the amount so applied from the profits liable to assessment under this rule.”¹

This peculiar proviso is quite sufficient to render the attempt at assessment nugatory for the great majority of “fines,” since investment of proceeds is a natural and simple matter (but a temporary deposit in a bank does not come within the proviso; there must be some element of permanence about the application²). It is a principle unique in the Income Tax Acts, and the rule is practically carried bodily from the Acts of 1805 and 1806. In Pitt’s Act, 1799, the annual value of lands let to tenants in consideration of a fine paid, plus a rent, was directed to be based on the rent plus an additional sum in respect of the fines which would amount on an average of years to the receipts of fines for one year.³ In the 1803 Act income from fines was charged in proportion to the length of the lease.⁴

The figures for this heading are practically worthless for statistical purposes; it will be seen that at one time the total was three times as great as in 1899, since when it has probably diminished still further, and with the proviso as to re-investment it is not likely to increase. In any case, an assessment on fines is in the nature of “legal duplication”⁵ of income, since the gross value of the property assessed covers the full consideration payable on an annual basis, and any lump sum paid is payable out of this annual value.

“In the payment of this fine the tenant advances the rent of future years, and the aggregate of the fines and reserved rents, divided over the term of renewal, represents the average income derived from the property by the lessors. Income tax is now levied upon the full annual value of the property in the hands of the tenant, and it is also levied on the fines received by the lessors, so that the State taxes a large portion of the ‘profits’ of the property twice over. The assessment of the fines in the hands

¹ 5 & 6 Vict. c. 35, s. 60 (ii.) (5).

² *Mostyn v. London*, 3 T. C. 294.

³ 39 Geo. 3, c. 13; Sch. A, IV.

⁴ 43 Geo. 3, c. 122, s. 31; Sch. A, II., r. 4.

⁵ *Vide* p. 350; and also *Manors, etc.*, p. 45.

of the lessors should, in the opinion of your Committee, be discontinued, and the tenant who now recoups what he pays as income tax on the full annual value, only partially upon the small reserved rent, will then either deduct income tax upon the fine he pays to the lessor, if it be a fine certain, or regulate the optional fine he agrees to pay by the consideration of the additional burthen of taxation he has to bear" (Draft Report by Mr. Hubbard, Income Tax Committee, 1861).

Similarly, where two houses of the same value are built, one on a freehold and the other on a leasehold site, the annual value assessed is the same and the aggregate tax received by the State is the same, so that the special reversion duty payable on the "lump" advantage falling to the reversioner in the one case is in the nature of a clear addition to the tax burden, and is analogous to income tax upon a "fine" payable at the beginning of a lease.¹

Statistically this category is unimportant, but, like "Manors," the figures should be left out of any capitalisation process.²

(d) **Sporting Rights, etc.**, 1903-4 figures :—

	£
England	391,861
Scotland	326,374
Total	<u>718,235</u>

The sporting rights for Ireland are assessed under Sch. D, and so also are various other fishing and sporting rights not included here.³

It must not be assumed that these figures include the whole value of sporting and fishing. The law and practice relating to them are rather involved. The value of sporting attached to lands in the occupation of the owner are included in the ordinary assessment under Schs. A and B upon the

¹ But this must not be understood as bearing upon the equity of the reversion duty, which is based, not on comparative receipts by the State, but upon special faculty principles affecting the payers, and has its justification in somewhat abstruse questions of incidence. These questions, together with that of the "fines" above mentioned, are discussed by the writer in an article on "The Incidence of Taxation of Leaseholds" in the *Economic Review*, July, 1911.

² See chapter on "National Capital."

³ *Vide* p. 226.

lands. The value of shooting over lands let, if kept in hand by the owner, is not assessed at all. As soon as he lets it as a separate subject it is assessable. The loss to the Revenue in this respect is said to be considerable in Scotland, where the chief value attaching to large areas of land is its sporting value.

(e) **Other Profits from Lands, 1903-4 figures :—**

				£
Metropolis	.	.	.	55,843
Rest of England	.	.	.	73,250
Scotland	.	.	.	790
Ireland	.	.	.	1,439
Total	.	.	.	131,322

This is the last of the subsidiary categories of Sch. A. The legal basis of charge is—

“ All other profits arising from lands, tenements, hereditaments or heritages, not in the actual possession or occupation of the party to be charged, and not before enumerated, on a fair and just average of such number of years as the commissioners shall judge proper . . . to be charged on the receivers of such profits or the persons entitled thereto.”¹

It is the “ sweeping clause of Sch. A,” and includes such miscellanea as rents of foreshores, shingle, and ooze, easements for telegraph and telephone poles, and encroachments and wayleaves.

County Details under Sch. A : Gross Assessments.

The total Sch. A assessments in each county are frequently very useful for comparative purposes. They have not been given consistently in the Reports, the earlier ones merely giving specific cases with the amount of increase, and the later ones (since 1900) a comparison of totals for particular

¹ 5 & 6 Vict. c. 35, s. 60 ; Sch. A, II., 6.

SCHEDULE A. REAL PROPERTY.

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TABLE A4.—Income Tax (Sch. A).
Lands (including Tithes) (£000 omitted).

Year.	England and Wales. (+ or -)	Scotland. (+ or -)	Ireland. (+ or -)	United Kingdom. (+ or -)
1814-15	37,063	5,075		
1814-2	42,127	5,587		
1814-3	42,000 (100)	5,150 (100)	10,550	58,264 (300)
1814-4	42,000 (100)	5,000 (100)	10,550	57,700 (500)
1814-5	42,031	5,509	10,550	57,550 (500)
1814-6	42,015	5,500 (50)	10,550	58,090 (300)
1814-7	41,980	5,632	10,550	58,065 (350)
1814-8	42,853	5,634	10,560 } 300	58,172
1814-9	42,829	5,586	10,550	59,037
1814-10	42,790	5,543	10,350	58,765
1814-11	41,490	5,487	10,280	58,613
1814-12	41,449	5,499	9,540	56,517
1814-13	41,430	5,687	9,260	56,208
1814-14	41,597	5,725	8,900	56,017
1814-15	41,485	5,873	8,950	56,272
1814-16	41,545	5,932	8,890	56,248
1814-17	42,895	6,254	8,840	56,317
1814-18	42,912	6,230	9,400 } 100	58,549
1814-19	42,995	6,282	9,420	58,562
1814-20	43,036	6,357	9,430	58,707
1814-21	44,686	6,675	9,490	58,883
1814-22	44,663	6,715	9,723	61,084
1814-23	44,724	6,718	9,720	61,098
1814-24	46,462	6,831	9,609	61,141
1814-25	46,482	6,850	9,877	63,170
1814-26	46,536	6,965	9,887	63,219
1814-27	47,767	7,186	9,992	63,513
1814-28	47,799	7,217	9,961	64,914
1814-29	47,857	7,195	9,952	64,968
1814-30	49,011	7,301	9,879	64,931
1814-31	49,027	7,326	9,886	66,198
1814-32	49,035	7,363	9,884	66,237
1814-33	49,956	7,497	9,885	66,283
1814-34	50,272	7,493	9,924	67,377
1814-35	50,408	7,505	9,923	67,688
1814-36	52,016	7,690	9,921	67,834
1814-37	51,934	7,666	9,938	69,644
1814-38	51,870	7,668	9,937	69,537
1814-39	52,041	7,769	9,940	69,478
1814-40	51,847	7,712	9,981	69,791
1814-41	51,419	7,649	9,981	69,540
1814-42	48,659	7,573	9,980	69,048
1814-43	48,211	7,505	9,981	66,213
1814-44	47,864	7,462	9,982	65,698
1814-45	46,255	7,320	9,983	65,309
1814-46	45,635	7,100	9,954	63,530
1814-47	44,732	6,824	9,958	62,693
1814-48	42,534	6,540	9,958	61,513
1814-49	42,053	6,417	9,941	59,015
1814-50	41,635	6,375	9,941	58,411
1814-51	41,385	6,319	9,941	57,952
1814-52	41,059	6,291	9,943	57,647
1814-53	40,335	6,252	9,874	57,224
1814-54	39,942	6,193	9,895	56,482
1814-55	39,624	6,148	9,895	56,031
1814-56	39,045	6,100	9,894	55,666
1814-57	38,378	6,045	9,894	55,040
1814-58	37,526	5,967	9,749	54,172
1814-59	37,332	5,957	9,747	53,240
1814-60	37,160	5,944	9,747	53,036
1814-61	37,017	5,912	9,751	52,854
1814-62	36,836	5,883	9,748	52,677
1814-63	37,149	5,853	9,655	52,374
1814-64	36,896	5,838	9,718	52,720
1814-65	36,810	5,821	9,723	52,455
1814-66	36,715	5,811	9,721	52,351
1814-67	36,629	5,802	9,727	52,253
1814-68	36,584	5,772	9,725	52,156
1814-69	36,567	5,776	9,738	52,095
1814-70	37,044	5,757	9,768	52,111
1814-71	36,990	5,739	9,694	52,495
1814-72	37,013	5,730	9,691	52,420
1814-73	37,071	5,713	9,695	52,438
1814-74			9,699	52,484

(For details as to the construction of these tables see Appendix II.)

Houses and Messuages (£000 omitted).

Year.	England and Wales. (+ or -)	Scotland. (+ or -)	Ireland. (+ or -)	United Kingdom. (+ or -)
1814-15	14,895	1,364		
1842-3	35,556	2,919	2,790	41,265 (200)
1843-4	35,600 (100)	2,700 (100)	2,790	41,090 } 300
1844-5	35,800 (100)	2,700 (100)	2,790	41,290 }
1845-6	36,576	2,961	2,790	42,327 (200)
1846-7	37,010	3,000 (50)	2,790	42,800 (250)
1847-8	37,282	3,199	2,790	43,271
1848-9	38,822	3,493	2,790	45,105
1849-50	39,056	3,607	2,740	45,403
1850-1	39,354	3,624	2,720	45,698
1851-2	40,047	3,784	2,520	46,351
1852-3	40,621	3,847	2,450	46,918
1853-4	42,828	4,131	2,360	49,319
1854-5	43,425	4,209	2,364	49,998
1855-6	44,710	4,239	2,351	51,300
1856-7	44,994	4,358	2,342	51,694
1857-8	47,439	4,704	2,480	54,623
1858-9	48,138	4,842	2,489	55,469
1859-60	48,779	4,989	2,504	56,272
1860-1	49,505	5,109	2,514	57,128
1861-2	53,235	5,355	2,634	61,324
1862-3	54,104	5,447	2,644	62,195
1863-4	55,121	5,576	2,691	63,388
1864-5	59,286	5,802	2,713	67,801
1865-6	60,812	5,952	2,731	69,495
1866-7	62,467	6,182	2,797	71,446
1867-8	68,013	6,546	2,847	77,406
1868-9	69,540	6,729	2,900	79,169
1869-70	70,949	6,930	2,926	80,805
1870-1	75,307	7,309	2,966	85,582
1871-2	76,475	7,530	2,995	87,000
1872-3	77,832	7,876	3,035	88,743
1873-4	80,728	8,521	3,060	92,309
1874-5	82,033	9,023	3,071	94,127
1875-6	83,852	9,397	3,091	96,340
1876-7	90,451	10,372	3,121	103,945
1877-8	93,104	10,829	3,148	107,181
1878-9	95,585	11,291	3,181	101,058
1879-80	100,079	11,766	3,260	113,106
1880-1	102,417	11,838	3,309	117,565
1881-2	105,622	11,992	3,357	120,971
1882-3	109,374	12,047	3,404	124,825
1883-4	111,565	12,130	3,451	127,144
1884-5	112,791	12,280	3,482	128,573
1885-6	115,436	12,557	3,510	131,503
1886-7	117,183	12,615	3,561	133,359
1887-8	118,524	12,716	3,596	134,836
1888-9	120,514	12,907	3,600	137,020
1889-90	121,907	13,027	3,656	138,590
1890-1	123,721	13,246	3,716	140,683
1891-2	125,946	13,426	3,775	143,147
1892-3	127,544	13,643	3,736	144,723
1893-4	131,860	14,008	3,858	149,726
1894-5	133,512	14,303	3,933	151,747
1895-6	135,929	14,595	4,016	154,540
1896-7	139,670	14,999	4,105	158,775
1897-8	142,128	15,418	4,335	161,881
1898-9	149,632	16,104	4,453	170,189
1899-1900	153,193	16,664	4,573	174,431
1900-1	157,160	17,215	4,588	178,963
1901-2	162,263	17,656	4,653	184,573
1902-3	165,629	18,076	4,800	188,505
1903-4	174,653	18,556	4,754	197,963
1904-5	177,666	19,076	4,832	201,573
1905-6	181,153	19,475	4,858	205,486
1906-7	185,452	19,935	5,011	210,397
1907-8	188,286	20,193	5,073	213,552
1908-9	191,077	20,461	5,127	216,665
1909-10	193,223	20,573	5,132	218,928
1910-11	196,196	20,761	5,276	222,233
1911-12	197,632	20,858	5,323	223,813
1912-13	199,648	20,978	5,364	225,991
1913-14	202,018	21,202	5,419	228,639

SCHEDULE A. REAL PROPERTY.

51

Gross (Sch. A : Assessments).

Lands, Houses and other Property (£000 omitted).

Year.	England and Wales.	Scotland.	Ireland.	United Kingdom.
1814-15	52,237	6,350		
1842-3	78,354	8,547	13,350	100,251
1843-4	78,260	7,891	13,350	99,501
1844-5	78,460	7,741	13,350	99,551
1845-6	79,330	8,529	13,350	101,209
1846-7	79,715	8,559	13,350	101,624
1847-8	79,952	8,890	13,360	102,202
1848-9	82,251	9,183	13,350	104,784
1849-50	82,445	9,244	13,100	104,789
1850-1	82,704	9,218	13,010	104,922
1851-2	82,103	9,322	12,070	103,495
1852-3	82,588	9,392	11,720	103,700
1853-4	84,791	9,869	11,270	105,930
1854-5	85,619	9,993	11,324	106,936
1855-6	86,816	10,177	11,251	108,244
1856-7	87,114	10,362	11,192	108,668
1857-8	90,902	11,033	11,807	113,832
1858-9	91,620	11,153	11,919	114,692
1859-60	92,403	11,353	11,944	115,700
1860-1	93,165	11,550	12,014	116,729
1861-2	98,692	12,119	12,368	123,179
1862-3	99,535	12,253	12,374	124,162
1863-4	100,587	12,389	12,399	125,375
1864-5	106,488	12,756	12,600	131,844
1865-6	108,053	12,932	12,626	133,611
1866-7	110,697	13,310	12,861	136,868
1867-8	116,341	13,898	12,831	143,070
1868-9	117,907	14,116	12,852	144,876
1869-70	119,430	14,291	12,805	146,526
1870-1	124,699	14,797	12,852	152,348
1871-2	125,896	15,042	12,879	153,818
1872-3	127,272	15,430	12,920	155,622
1873-4	131,085	16,213	12,984	160,282
1874-5	132,721	16,716	12,995	162,432
1875-6	134,698	17,106	13,013	164,817
1876-7	142,889	18,225	13,059	174,173
1877-8	145,482	18,573	13,085	177,140
1878-9	147,922	18,994	13,122	180,038
1879-80	152,554	19,582	13,242	185,378
1880-1	154,711	19,597	13,290	187,598
1881-2	157,505	19,688	13,338	190,532
1882-3	158,451	19,668	13,385	191,504
1883-4	160,228	19,684	13,433	193,345
1884-5	161,117	19,790	13,468	194,375
1885-6	162,207	19,925	13,468	195,600
1886-7	163,375	19,766	13,522	196,664
1887-8	163,831	19,600	13,557	196,987
1888-9	163,582	19,513	13,544	196,640
1889-90	164,541	19,510	13,601	197,652
1890-1	165,956	19,683	13,661	199,300
1891-2	167,864	19,805	13,723	201,391
1892-3	169,107	19,991	13,688	202,786
1893-4	172,670	20,318	13,755	206,742
1894-5	173,748	20,548	13,829	208,125
1895-6	175,908	20,798	13,911	210,616
1896-7	179,029	21,170	14,000	214,199
1897-8	180,845	21,528	14,085	216,457
1898-9	187,502	22,129	14,201	223,832
1899-1900	191,113	22,950	14,321	228,384
1900-1	194,979	23,492	14,339	232,810
1901-2	199,899	23,931	14,402	238,232
1902-3	203,098	24,334	14,455	241,887
1903-4	212,524	24,788	14,473	251,784
1904-5	215,269	25,302	14,557	255,127
1905-6	218,672	25,696	14,580	258,949
1906-7	222,856	26,147	14,739	263,742
1907-8	225,600	26,400	14,800	266,800
1908-9	228,356	26,666	14,867	269,889
1909-10	230,488	26,757	14,902	272,147
1910-11	233,907	26,944	14,972	275,823
1911-12	235,290	27,025	15,015	277,330
1912-13	237,311	27,164	15,061	279,536
1913-14	239,757	27,385	15,120	282,262

cases. For example, 13th Report, p. 114, compares 1803 and 1867 for certain counties.

Details of total Sch. A. in each county are available as follows:—1814 (not Scotland or Ireland), 24th Report, Supplement, H. C. 331 of 1831, 238 of 1814-15; Marshall's Digest, 1814 and 1842 to 1869 inclusive in H. C. 511 of 1866, and 454 of 1870; 1842, 1852, 1862, 1872, 1874, 1876, 1879, 24th and 28th Reports; 1874, 1876, 1879, in 19th, 21st, and 24th Reports; 1876, 1879, 1882, 28th Report; 1883 to 1894 inclusive in H. C. papers, 292—1882 to H. C. 217—1896; 1894 to 1899 inclusive, 40th to 44th Reports; 1902 and 1903, 56th and 57th Reports; 1911 and 1912, 56th and 57th Reports.

The important **division into Lands and Messuages** is, however, not so extensively available:—1813 and 1814; Parliamentary returns in 1814-15 and Marshall's Digest, II., 30; 1842, H. C. 102—1845; 1859, H. C. 546—1860; 1894 to 1899, 40th to 44th Reports; 1902 and 1903 and 1911 and 1912, 56th and 57th Reports.

In view of the interest of these details, and their lack of general accessibility, the chief features are repeated in Table A5.

A similar classification of poor rate values for 1840-1 is given in H. C. 235—1842 (reprinted in the Appendix to the evidence before the S. C. on the Burdens on Real Property, Vol. II., p. 150), where for each county in England and Wales the details are given under these heads:—

	Total £.
Lands	32,655,137
Dwelling-houses	23,386,401
Other property	6,498,492
Total	62,540,030

The rate per £ in each county, the rate per head for value of property, and the value per acre are also given.

It is only necessary to compare the income tax values in 1842 to see how little real effect had been given to the law enacted a few years before to secure a poor rate valuation upon the full rental values.

SCH. A. DEDUCTIONS AND ALLOWANCES FROM THE GROSS ASSESSMENT.

These may be classed under three heads :—

(1) Deductions from assessable gross income in the nature of expenses, impersonal and objective.

(2) Allowances in respect of the whole gross value of properties which is not enjoyed as personal income assignable to individuals.

(3) Allowances from personal incomes, facultative and subjective, designed to procure the progressive graduation of the tax on individual incomes, *i.e.*, exemptions and abatements.

The different categories have been treated separately for many years in the official statistics, and are summarised from 1868 to 1883 in the 28th Report.

How Deductions are made in Practice : Effect on Statistics.

It is necessary to draw attention to a very important feature in the earlier statistics prior to 1900-1. Deductions and allowances may be made in three ways, or at three stages in the tax administration.

(1) “ **In the assessment** ” itself, at the time it is made, and before it is closed and totalled. (2) “ **By schedule,** ” in which case the collector is authorised to make the allowance of duty, and return it in part satisfaction of the total charge against him in a schedule of discharges. Allowances for empty property, except in Scotland, are made in this way, and, speaking generally, it may be applied to all the allowances, and it is often an accident of time whether (1) or (2) operates. (3) “ **By repayment,** ” where an error is discovered, or where, by the machinery of the tax, repayment is the remedy provided. This is the method naturally applicable to cases where persons exempt from tax have received income, with tax already deducted, by way of mortgage interest, dividends, ground rents, etc.

Now all the early tables give the deductions under I.

TABLE A5. COUNTY CLASSIFICATIONS (£000 omitted).

COUNTRY.	Lands.					Houses.									
	1806.	1814.	1842.	1859.	1894-5.	1903.	1912.	1806.	1814.	1842.	1859.	1894-5.	1903.	1912.	
METROPOLIS.	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Kent	—	—	—	—	—	28	23	—	—	—	Included below in earlier years.	—	2,931	3,286	
Middlesex	—	—	—	—	—	27	24	—	—	—		—	—	33,208	36,414
Surrey	—	—	—	—	—	21	21	—	—	—		—	—	8,916	9,312
Total—Metropolis .	—	—	—	—	84	76	68	—	—	—	—	37,443	45,056	49,011	
REST OF ENGLAND.															
Bedford	260	327	385	416	380	335	332	29	32	132	200	536	731	925	
Berks.	417	556	625	612	484	429	436	102	135	310	380	1,039	1,353	1,570	
Bucks.	478	555	615	656	605	553	547	73	82	212	252	500	753	1,005	
Cambridge	418	565	802	874	740	669	721	53	62	267	320	601	725	839	
Chester	690	935	988	1,043	1,123	1,130	1,113	163	151	780	1,138	2,878	3,798	4,043	
Cornwall	543	680	850	721	889	843	853	99	119	277	293	575	725	894	
Cumberland	419	521	614	684	741	681	680	63	89	221	322	704	820	879	
Derby	523	700	862	842	836	793	791	64	94	328	505	1,560	2,229	2,395	
Devon	1,182	1,445	1,672	1,581	1,719	1,597	1,625	313	387	767	969	2,147	2,703	3,117	
Dorset	469	602	670	703	643	566	570	70	87	231	261	559	730	895	
Durham	485	587	573	578	569	563	564	100	102	429	734	2,914	4,109	4,962	
Essex	957	1,238	1,396	1,441	1,554	889	868	187	250	517	689	3,155	5,594	6,657	
Gloucester	765	995	1,161	1,171	976	876	853	191	266	840	981	2,008†	1,402	1,461	
Hants.	609	813	892	972	844	765	703	261	338	731	996	3,016	4,154	5,121	
Hereford	440	549	662	679	638	594	600	25	55	129	147	270	328	359	
Hertford	346	423	494	552	479	428	427	97	113	340	366	846	1,299	1,702	
Huntingdon	176	269	320	327	255	234	244	44	30	72	96	130	155	168	
Kent*	857	1,085	1,442	1,477	1,371	1,180	1,112	369	516	1,373	1,911	3,889*	5,511*	6,046*	
Lancaster	1,180	1,410	1,676	1,606	1,409	1,567	1,514	1,077	1,416	4,778	7,020	18,807	23,076	25,867	
Leicester	635	789	919	933	793	730	735	87	116	315	376	1,360	1,943	2,072	

	1,330	1,862	2,386	2,641	2,213	2,104	2,141	125	144	421	537	1,232	1,581	1,900
Lincoln	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Middlesex*	357	421	442	386	356	307	286	3,935	4,868	9,321	12,224	3,512*	6,052*	8,084*
Monmouth	184	230	308	332	310	303	302	44	252	158	298	720	989	1,336
Northampton	894	1,209	1,715	1,832	1,432	1,220	1,248	187	78	590	310	1,159	1,302	1,911
Northumberland	628	829	984	1,019	879	727	730	61	204	264	310	1,159	1,302	1,911
Nottingham	850	996	895	907	879	873	870	129	189	432	571	1,922	2,017	3,435
Northampton	448	596	720	779	644	598	508	86	119	381	552	1,645	2,184	2,561
Oxford	506	537	477	477	477	477	482	68	105	286	325	712	870	1,027
Rutland	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Salop	88	111	134	106	112	112	106	6	5	22	25	48	57	65
Salop	701	872	1,081	1,087	1,046	1,009	1,010	105	137	254	366	562	674	745
Somerset	1,178	1,578	1,775	1,755	1,665	1,514	1,549	482	657	1,025	1,098	2,020†	3,497	3,975
Stafford	703	868	1,137	1,087	1,052	1,034	1,013	171	237	819	1,288	3,525	5,079	5,079
Suffolk	750	843	1,213	1,205	899	744	743	121	211	479	570	1,007	1,319	1,406
Surrey*	379	483	477	491	505	464	452	769	1,025	2,159	3,079	3,570*	5,437*	7,027*
Sussex	559	703	944	915	915	826	810	143	165	668	1,068	3,314	4,445	4,891
Warwick	586	819	938	946	755	712	707	239	285	1,122	1,611	3,679	4,088	5,584
Westmorland	202	247	274	266	316	296	293	21	29	52	74	108	230	255
Wills	727	1,040	1,098	821	821	739	760	118	139	291	394	686	836	952
Worcester	516	624	745	756	678	639	641	96	146	515	617	1,444	2,056	2,418
York	2,912	3,484	4,067	4,118	3,800	3,697	3,620	647	826	2,708	4,045	12,349	16,008	16,069
Wales.														
Anglesey	74	89	144	151	184	191	193	3	3	15	35	78	98	111
Brecon	105	140	152	160	190	190	189	21	14	31	77	98	118	157
Cardigan	99	130	173	173	234	220	224	3	6	23	33	79	117	134
Carmarthen	204	244	342	334	426	426	427	14	18	38	71	232	293	405
Carmarvon	93	111	162	175	210	215	213	13	17	33	71	330	440	482
Denbigh	181	266	302	327	323	318	318	36	37	54	79	270	386	450
Flint	122	145	203	206	203	205	209	3	4	28	74	104	259	310
Glamorgan	207	235	271	272	317	316	330	50	55	219	453	2,638	3,599	4,092
Merioneth	81	101	111	120	135	132	130	7	6	31	96	123	130	130
Montgomery	170	195	278	287	316	306	302	10	14	54	100	84	94	100
Pembroke	156	183	291	301	345	347	352	15	19	58	80	142	168	197
Radnor	86	99	114	136	159	153	153	1	1	15	14	35	52	67
Total—England and Wales	27,920	35,400	42,127	42,995	39,680	36,923	36,813	11,202	14,291	35,556	48,779	133,512	174,653	199,648

* Extra metropolitan for 1894, 1903 and 1912.
† Area transferred from Gloucester to Somerset between 1894 and 1903.

only. After 1870 there are some rather intractable details of deductions under III. (Classification of Repayments), but no information is available on deductions "by schedule" until 1900-1, when the "net assessment" was replaced by "net income on which tax was received," a *much lower figure*, and the deductions under each head included all the allowances, *at whatever stage they were made*. The comparative figures were carried back for ten years, but prior to that we have no details. Hence no attempt has been made to estimate the figures for earlier years on these lines *in detail*; no important purpose would be served thereby, but in Table G4 the *total* deductions have been estimated, in order that a true net income comparable with the present one may be given for all schedules together.

SCH. A ALLOWANCES—I. DEDUCTIONS FROM THE GROSS ASSESSMENT (OBJECTIVE OR IMPERSONAL).

(1) **Land Tax.**—"The amount of land tax charged on lands, tenements, hereditaments, or heritages," under the Land Tax Act, 1797, "where the charge thereon shall not have been redeemed."

This is recognised as a landlord's burden, payable *out of* the rack rent, so that where a tenant covenants to pay land tax, the amount has to be added to the rent to arrive at the gross assessment, Sch. A, and then allowed again as a "deduction." This secures uniformity for statistical purposes, both under Sch. A. and Sch. B.

The full land tax *charged*, in the statutory sense, is allowable, although half the charge may be excused under the Finance Act of 1894 on the ground of the owner's income being under £400 per annum.

It will be seen from the Reports that the total amount allowed has gradually become less, *pari passu*, with the process of "redemption." But in any case the amount allowed as a deduction is considerably less than the total sum charged, which in 1910-11 was over £700,000, the allowance being only about £400,000. The difference is mainly accounted for by the fact that there are very many

small sums which on individual properties are only fractional deductions and are not worth including as such. For example, on a £40 house charged to Land Tax at 1*d.* in the £ the deduction of 3*s.* makes an insignificant difference to the net assessment and duty payable.

The statistics of land tax are now of very little value for economic investigations. The original assessments themselves are sometimes useful for local inquiries, where they are available. The statistics have been used to determine distribution and occupying ownership, with a device to give an acreage classification; "numerous traps are spread for the unwary statistician" (Johnson, "Disappearance of the Small Landowner," 1909, p. 131).

In allocating "Deductions" between "Lands" and "Messuages" Sir T. H. Elliott referred *land tax*, sea walls, ecclesiastical deductions, repairs of churches, rates on tithe rentcharge to "Lands" and divided the remainder in the proportion of three-fourths to buildings and one-fourth to lands.¹

Lord Milner, in a general division of tax burdens, assigned £802,700 Land Tax to lands and £219,000 to houses.²

The question whether land tax, redeemed or not redeemed, is to be regarded as a tax or burden upon lands, or whether it is now a rentcharge, is of some importance when matters relating to relative tax burdens or site values are under discussion.³

(2) **Sea Walls, etc. : Drainage Rates.**—An allowance is made for the amount expended by the owner of lands in respect of the actual average of the preceding twenty-one years in making or repairing sea walls or other embankments necessary for the preservation and protection of the lands against the encroachment or overflowing of the

¹ S. J., 1887, p. 208.

² R. C. on Local Taxation, Appendix, 582.

³ *Vide* pp. 352, 470. Lord Milner, when Chairman of the Board of Inland Revenue, in giving evidence before the R. C. on Agriculture, 1896, though loth to express an opinion, evidently considered it a true tax (Qs. 63,085, 63,425, etc.); but the deputy-chairman, Sir F. L. Robinson, gave it as the "Inland Revenue view" that it was a variable rentcharge (Q. 45,247). Also *vide* comments by the present writer in *Economic Journal*, July, 1911. The view held in 1846 may be gathered from the Report of the S. C. on Burdens affecting Real Property.

sea or a tidal river, although the sums expended may not have been charged by any public rate or assessment.¹ This came into force in 1853. It does not apply to expenditure in order to increase the value of the land to the owner by changing its condition, either in reclamation or permanent improvement.²

Drainage rates have been allowable since 1842—"for the amount charged on lands, tenements, hereditaments or heritages by a public rate or assessment in respect of draining, fencing or embanking the same."³

The economic justice of treating these as specific deductions from the gross value rather than as items to be allowed for in computing gross value is referred to in Chapter II.

(3) **Ecclesiastical Payments, and Repairs of Churches.**—Tithes and first fruits and duties and fees on presentation, paid within the year preceding the assessment year; procurations and synodals on the average of the preceding seven years; repairs of collegiate churches and chapels and chancels, or of any college or hall in any of the universities, on the amount paid in the preceding year⁴ by any ecclesiastical or collegiate body, rector, vicar, or other person bound to repair. These allowances are granted from assessments upon the persons liable to the payments. They are, for statistical purposes, negligible (£16,809 in 1899-10).

(4) **Parochial Rates on Tithe Rentcharges** (£326,802 in 1899-00 and considerably more at the present date).—"For the parochial rates, taxes and assessments charged upon or in respect of any rentcharge confirmed under the Act passed for the commutation of tithe on the amount paid in the year in which the assessment shall be made."⁵

Except for the next case (Public Burdens in Scotland) this is practically unique as a method of allowance, the burden of rates being provided for in other cases *before* the gross assessment is arrived at (as in the case of weekly pro-

¹ 16 & 17 Vict. c. 34, s. 37.

² *Hesketh v. Bray*, (1888) 2 T. C. 380.

³ 5 & 6 Vict. c. 35, s. 60; Sch. A, V., 4.

⁴ By the Act of 1853; it had previously been a twenty-one years' average.

⁵ 5 & 6 Vict. c. 35, s. 60; Sch. A, V., 4.

perties where the owner pays the tenant's rates). The origin is doubtless in the old method of assessing commuted tithes,¹ where the titheowner receiving his income from various quarters, with full tax deducted, had to claim these expenses by repayment.

As in the case of land tax, the allowance is to be for the "amount *charged*," and not the actual sum *paid* by the recipient of the gross income. Therefore, although under the Tithe Rentcharge Rates Act of 1899 half the burden of the ordinary rates upon tithe rentcharges paid to incumbents is borne by the State, the allowance of the *full* rates is still made from the Sch. A assessment.

(5) **Public Rates and Burdens (Scotland) (Relief to Landlords under Act 19 & 20 Vict. c. 80)**, £1,352,265 in 1899-1900, and at the present time probably about twice that amount.—In Scotland landlords are charged with a share of public rates, taxes, and assessments which in England are by law a charge on occupiers, and since these are a deduction from the gross rent received before the net income is ascertainable, and the gross assessment is made upon the rent, it was necessary to provide for the exceptional deduction in this way. As to the effect for statistical purposes upon the gross figures Sch. A, Sch. B, and House Duty, see pp. 20, 86, and 133 respectively.

(6) **Repairs.**—The original Income Tax Act, 1799, allowed, in the case of farm buildings of a farm with a principal messuage, repairs up to 8 per cent. on the annual value, and where there was no principal messuage, up to 3 per cent. In the case of houses and buildings not occupied with a farm, the limit was 10 per cent.² In 1806 the allowance for repairs was discontinued, the reason being that cases of fraudulent claims had occurred, "where landlords, demanding an allowance for repairs, in fact done by the tenants, had obtained an advantage over others who were correct in their returns."³

No provision for the allowance was made in the Act of

¹ *Vide* p. 43 on Tithe Rentcharge.

² *Vide* Dowell's "Income Tax Laws" (fifth edition), p. xlvii.

³ *Ibid.*, p. li.

1842, and the omission was the subject of much discussion and debate for many years. Gladstone opposed the allowance and considered that by its absence differentiation was provided between income from property and income from personal exertion.

In 1894 the increase in the tax rate was partly offset by a higher exemption limit, a higher abatement allowance, and the allowance for repairs.

The chief points to note are—

(1) The one-eighth on lands is allowed upon the gross, or Sch. B, value, including tithe, and in the case of farm cottages excluded from the Sch. B assessment one-sixth is allowed.

(2) The one-sixth is not always allowed, or fully allowed, in the case of lease rents.

(3) The “repairs” allowances are given on all classes of properties, whether exempt, abated, or allowed as “charities,” etc.

“The Report of the Commissioners of Inland Revenue for the year 1908–9 shows that the sum of about £33,000,000 was allowed in respect of 1907–8 by way of deduction in respect of repairs to houses; a small portion of this sum is doubtless included in the amount allowed for industrial repairs, *but on the other hand, repairs executed by house owners whose incomes fell below the exemption limit were not included*” (Census of Production, Final Report, p. 36).

The assumption in the sentence italicised is incorrect. It can be seen on examination that the repairs allowance is given generally, and without regard to ownership, the income assigned to exempt owners being *pro tanto* reduced.

(4) The “repairs” allowances in Scotland exceed those in England in proportion to the annual value (*vide* p. 20).

(5) The “repairs” allowances in Ireland are specially affected by statute. The one-eighth on lands is allowed in practically all cases, but in the case of buildings the existing valuation is already so much below the true rental value that where it is *more* than one-sixth below no allowance is given.¹ The allowance given in Ireland is therefore far

¹ Finance Act, 1894.

less than one-sixth of the whole gross value of buildings.¹ The effect upon the net assessment is sometimes peculiar: assume two different cases with a rental of £120 and valuations of £102 and £98 respectively, the net assessment in the first case would be £102 minus one-sixth £17, or £85, and in the second case £98.

How closely does the statutory "repairs" allowance approximate to the facts?

The one-sixth allowance for buildings was adopted by Sir William Harcourt in 1894, following on the suggestions by Mr. Hubbard in 1861, and it was intended to provide not only annual repairs, but also "a sufficient sinking fund for the eventual replacement of the building."² For ordinary dwellings the allowance is generally regarded as adequate,³ and it covers also the cost of insurance, but probably most owners do not greatly concern themselves as to whether it is sufficient to provide a sinking fund in passing an opinion on the general question. Its adequacy in the case of trade premises is discussed in another connection, as very different and difficult issues are raised.⁴ It has been called into question in relation to cottage property, and was the subject of special legislation in 1910. For some years the heavy outgoings in the case of agricultural estates had been urged as a reason for more liberal allowances from cottages and lands. The Central Land Association gave evidence for 241 estates covering nearly two million acres, with details as follows:—

	Per cent.
Repairs	20·8
New works necessary to maintain rents	3·1
Management and legal fees	6·02
Insurance	1·2
Total average expenditure ⁵	29·5

¹ *Vide* p. 160.

² Income Tax Committee, 1905, Evidence, Q. 1,807.

³ *Ibid.*, Q. 1,809.

⁴ *Vide* p. 195.

⁵ *Vide* Transactions of Surveyors' Institute, 1911: "Upkeep on Agricultural Estates," W. A. Haviland.

A little uncertainty naturally exists about the second item, and the ultimate concession was said to be due to it being shown that "costs of upkeep averaged $27\frac{1}{2}$ per cent. of the gross rents."¹

The provision actually made in 1910 allows for repayment wherever an estate owner *proves* an average expenditure on farms and cottages (not exceeding £8 in annual value²) in excess of the existing one-eighth and one-sixth allowances, up to a maximum of 25 per cent., *i.e.*, it doubles the allowance on land and increases the allowance for buildings from one-sixth to one-quarter. The amount of *duty* (at 1s. 2d. in the £) assigned for this additional relief was £500,000; one writer says the Chancellor "hoped they would be contented with this paltry sum."³

There seems to be confusion between this figure and the amount of *assessment* allowed:—"If they had been able to get £6,000,000 off land under the 1894 Act, they ought to be able to get a great deal more than £500,000 under section 69 . . ."⁴

Up to 31st March, 1910, only £7,900 was repaid—"very disappointing." The actual statistics of repayment have been given as follows:—1910–11, £9,000; 1911–12, £53,000; 1912–13, £65,000.

An allowance of £500,000 would provide for an additional $8\frac{1}{2}$ millions of assessment to be deducted, and this is equal to more than the maximum claim on all the agricultural *land* in the United Kingdom.⁵

The additional allowances have been included in the statistics of deductions under the heading "Repairs," so that this item is much more complete than formerly.⁶

(7) **Empty Houses not charged to Duty.**⁷—This covers not only properties void for a whole year, but also for

¹ A. R. Stenning, Transactions of Surveyors' Institute, 1909. *Vide* also Evidence before R. C. on Agricultural Depression; and Nicholson, "Rates and Taxes as affecting Agriculture."

² Since extended to £12.

³ W. A. Haviland, *loc. cit.*, p. 107.

⁴ W. A. Haviland, *ibid.*, p. 115.

⁵ It was an estimate of the "maximum amount which might be repayable in any one year." Mr. Lloyd George, 30.5.1911 (Hansard, Vol. 26).

⁶ The statutory limit of 25 per cent. has since been removed.

⁷ 5 & 6 Vict. c. 35, s. 70.

portions of a year, even down to a week. Since 1894-5 the amount has represented net assessments *after allowance for repairs, i.e.*, if a house is void for three months, one quarter of the *net* assessment is allowed. If it is desired, therefore, to deduct from the gross values the value of empty property, one-fifth should be added to the figures given.

Sir Thomas Whittaker divides the total allowance for empty property proportionately between land and buildings ("Ownership and Taxation of Land," p. 87). But the amount applicable to lands is infinitesimal (probably not more than .2 per cent.), as there is no statutory provision for such an allowance. Only small building sites and waste land are included. Practically the whole sum should be assigned to buildings.

There is an administrative peculiarity which affects the earlier statistics (up to 1900-1) in an important way. It will be seen that the statistics given were for *Scotland* only, and none were available for England and Wales or Ireland. The reason is that practically the whole allowance for Scotland is made *in the assessment*, whereas elsewhere it is given "by schedule."¹ The present reports give all sums, however allowed.

(8) **Other Allowances : Lost Rent.**—There is no statutory provision for any allowance when premises have been occupied but the tenant is in default with his rent, which is finally lost. But the concession made in such cases dates almost from the beginning of the tax.² The amount allowed is not separately shown ; it is not a large part of the whole "adjustment" item, but it mainly relates to small house property.

SCH. A ALLOWANCES—II. NON-PERSONAL INCOME.

(1) **Colleges or Halls in Universities** (£46,408 in 1899-1900).—"For the duties charged on any college or hall in any of the universities of . . . in respect of the public buildings and offices belonging to such college or hall and not occupied by any individual member thereof, or by any person paying rent for the same."³

¹ *Vide* p. 53.

² S. C. on Income Tax, 1851, Q. 1,649.

³ 5 & 6 Vict. c. 35, s. 61, No. VI.

The sum exempted appears in the tables since 1894-5 as the five-sixths of the value, *i.e.*, after deducting the one-sixth for repairs, so that to get the *gross value* of these cases one-fifth should now be added.

(2) **Hospitals, Public Schools, Almshouses** (£2,472,077 in 1899-1900).—" . . . any hospital, public school or almshouse, in respect of the public buildings, offices and premises belonging to such hospital, public school, or almshouse, and not occupied by any individual officer or the master thereof whose whole income, however arising, . . . shall amount to . . . £150 per annum, or by any person paying rent for the same . . . or any building the property of any literary or scientific institution, used solely for the purposes of such institution and in which no payment is made or demanded for any instruction there afforded, by lectures or otherwise: provided also, that the same building be not occupied by any officer of such institution, nor by any person paying rent for the same." ¹ The value appearing since 1894-5, as in the preceding case, is generally five-sixths of the gross value.

Throughout these two cases the exemption is narrower than the popular use of the words quoted in the headings. Many cases in the courts have been necessary to determine the question of liability in individual cases. Thus, the Manchester Free Library fell within the exemption and the Dundee Library did not; the City of London School was allowed, but the Free Church of Scotland Theological College was not; the Nottingham Lunatic Asylum was within the exempting clause, while the Dundee Royal Lunatic Asylum was chargeable.

Video also House Duty—Exemptions, p. 121.

(3) **Rents and Profits of Lands applied to Charitable Purposes** (£762,120 in 1899-1900).—"On the rents and profits of lands, tenements, hereditaments or heritages belonging to any hospital, public school or almshouse, or vested in trustees for charitable purposes, so far as the same are applied to charitable purposes." ²

The word "charitable" is interpreted in a wide sense.

¹ 5 & 6 Vict. c. 35, s. 61, No. VI.

² *Ibid.*

Lord Macnaghten says : “ ‘ Charity,’ in its legal sense, comprises four principal divisions : trusts for the relief of poverty, trusts for the advancement of education, trusts for the advancement of religion, and trusts for the other purposes beneficial to the community, not falling under any of the preceding heads. The Act of 1842 has nothing to do with casual almsgiving or charity of that sort, nor indeed has it anything to do with charity which is not protected by a trust of permanent character.”¹

Since 1894-5 the figure appearing in the tables has been *after* the repairs allowance. But whereas the old tables gave only the sums exempted *in the assessments*, the recent reports show the total sum, including the very considerable amounts granted by repayment.

DEDUCTIONS AND ALLOWANCES—III. PERSONAL ALLOWANCES.

(1) **Exemptions.**—The sum given in the official reports as exempted is that assignable to *recipients* of the income assessed under Sch. A (owners, mortgagees, ground landlords, etc.) who had total incomes below the exemption limit. This sum is a necessary deduction when the total income of taxable persons is being ascertained. It is, moreover, sometimes desirable to ascertain the approximate value of land owned by the working classes, and this figure gives a good maximum limit. It indicates that the following is excessive :—

“ Would it destroy the moderation of my estimate if I put the value of all the urban and rural property of small landlords of the working class at £20,000,000 ? (previously defined as “ value of houses actually acquired by workmen, properties of small freeholders, farmers, market gardeners, owners of allotments, etc., crofters in Scotland, and peasant proprietors or small tenants who have purchased their holdings in Ireland ”).—JESSE QUAIL, “ The Wealth of the Workers,” *Contemporary Review*, August, 1907.

Division in “ Lands ” and “ Houses.”

The “ exemptions ” are always given in one sum for all classes of property, and there is nothing to indicate how

¹ *Commissioners for Special Purposes v. Pemsel*, 3 T. C. 53.

much of the gross value of "lands" is exempt, as distinct from "messuages."

Mr. Christopher Turnor gives the gross income from land in Great Britain as £42,000,000, of which £4,000,000 goes to "exempt owners," = £38,000,000 for agricultural landowners,

less 30 per cent. 12,600,000 for upkeep

£25,400,000 net, or 6·6 million pounds

"less than the Land Conference memorandum of 20th January" (Letter to *The Times*, 23rd February, 1914, on "Income of Agricultural Owners").

An opportunity for computing the relative proportions of the net exempt Sch. A belonging to "Lands" and "Houses" respectively, and, therefrom, the respective gross assessments belonging to exempt persons, appears to occur at the first occasion for the allowance of repairs. At present it is not possible to say what fraction, between one-fifth (for houses) and one-seventh (for lands) should be added to the net exemptions to give the gross, because these proportions are not known. If 1893-4 and 1894-5 were in all other respects alike, the latter year would show an amount for exemptions less than the amount in the former, by the repairs allowance, and this allowance would represent a composite of allowances one-eighth and one-sixth, from which the proportions of the two could be determined. But apart from a *normal* growth in the year we have the complication that 1893-4 was a re-assessment year, and the amount and number of exemptions as *recorded* were in consequence much lower than usual, and lower than the true figure (as explained elsewhere). Moreover, the repairs allowance was not the only change, but the exemptions in 1894-5 were up to £160 instead of £150. In the net result, for England and Wales, we had exemptions :—

1893-4 .	II,453,468	(number of properties affected)	I,094,549)
1894-5 .	II,073,817	(,, ,,)	I,209,726)
Decrease	379,651	Increase	II5,I77

Despite the higher exemption limit, and the increased number of properties exempted, the repairs allowance made the sum

“exempted” smaller than before. With the three complications it is not possible to work upon the aggregate charges, though the average value of properties exempted, which was constant, should apparently furnish a standard unaffected by re-assessment years¹; but the material is too rough to give satisfactory results on a fine fractional difference. It points to the fact that a mere transfer from one deduction column (exemptions) to another deduction column (repairs), having no fiscal significance, did not receive full administrative effect at once in assessments already made up, and all other methods based upon this change fail for the same reason.²

In evidence before the R. C. on Agriculture, 1896, the Chairman of the Board of Inland Revenue, Lord Milner, put in a table³ (which may be regarded as an official estimate) as follows (England and Wales) :—

	£
Lands, 1893-4 gross assessment	40,065,831
Approximate statutory deductions and abatements	4,924,178
Discharges and repayments by way of appeal, etc.	3,457,079
Net annual value	31,684,574

As far as I have been able to analyse the deductions, they seem to be computed by taking separately the deductions specifically applicable to lands (or almost entirely so), land tax, sea walls, ecclesiastical deductions, rates on tithe rent-charge, rents and profits applied to charitable purposes, and dividing the deductions not specifically belonging to any single category directly in the ratio of the lands and messuages. Therefore in this figure exemptions and abatements have been allotted to lands and messuages respectively almost in proportion to the gross assessments.

(The “discharges by schedule” were heavy in that year, because it was a re-assessment year.)

¹ By the formula :—Difference in average = $\frac{L + M}{n} - \left(\frac{7L}{8} + \frac{5M}{6} \right) \frac{1}{n}$, from which L (lands) should be found in terms of M (messuages).

² *Vide* also Appendix II., p. 500.

³ Evidence, p. 481.

From this it may be gathered that, on the best evidence available at that time, the lands in the hands of persons exempt in 1894-5 (£160 limit) amounted in annual value to about—

		£
England and Wales	. . .	2,900,000
Scotland	. . .	380,000
Ireland	. . .	750,000
Total	. . .	4,030,000

This sum was strictly only the amount allowed in the assessments, and therefore (except in Ireland¹) did not generally include the interest payable to exempt mortgagees: such interest would form the major part of the repayments under Sch. A applicable to lands, and the amount is not ascertainable from the Reports.

It is unlikely that the present total exemption should be similarly divided in proportion to the total value of lands and houses respectively. The greater part of the increase in exemptions is assignable to houses, except in Ireland, and, although doubtless the splitting up of landed estates has added to the numbers of exempt owners, the change must be relatively small. On the proportional method, it would give—

		£
England and Wales	. . .	3,600,000
Scotland	. . .	540,000
Ireland	. . .	4,300,000
Total	. . .	8,440,000

but in my judgment these figures are more likely to be, in fact—

		£
England and Wales	. . .	3,300,000
Scotland	. . .	500,000
Ireland	. . .	5,400,000
Total	. . .	9,200,000

¹ *Vide* p. 148.

assuming the figures for 1894-5 to be correct. This figure, however, includes repayments, and therefore mortgagees who are exempt.

In cases where exempt owners pay mortgage interest to persons who are liable, the annual interest is of course not included in the exemption, but in the remaining "net assessment." But this rule is completely interfered with in the case of interest paid to building societies, because these concerns are assessed under special arrangements. Generally the property is exempted outright, and the society receives its interest without any tax being deducted. Then the society is assessed (under Sch. D) for interest which it pays to *liable* shareholders, members, or other recipients. The effect of this arrangement is to make the "exempted" interests in real property appear rather larger than they really are at the moment. There is a similar arrangement in Ireland for dealing with interest paid under the land purchase schemes.¹ There the value appearing as exempted is the value that *will belong* to exempt purchasers, when they have paid off all their indebtedness.

(2) **Abatements.**—The sums allowed under this head are *not* closely indicative of the numbers of incomes *from property*, which fall between certain limits. In the case of mixed incomes the abatement for property owners may be allowed under another schedule. In general, however, since "earned income" rates were introduced in 1907, abatement in such cases is allowed in the first instance from such income, *e.g.*, in the case of a total income £280, £140 from property and £140 from salary, the salary will be "abated" and the balance (£20) of the £160 abatement allowed from assessment on the property. It is because information is lacking as to the number of these part abatements that no inference can be drawn from the total sum allowed under Sch. A.

Prior to 1900 only the abatements "in the assessment" were given in the tables,² and these were always much restricted in the re-assessment years.³

(3) **Life Insurance Premiums.**—These are allowed only

¹ *Vide* p. 148.

² *Vide* p. 53.

³ *Vide* p. 499.

by schedule and repayment under Sch. A, and therefore did not appear in the tables before 1900.

(4) **Relief in respect of Children.**—This is more fully dealt with in Chapter VIII. No inference can be drawn from the sectional allowance here.

SCH. A NET ASSESSMENTS—SEQUENCE.

The “**breaks**” are much more numerous than in the gross assessments, and practically rob the net assessments (as given in the Reports) of any value for comparative purposes over long periods. The chief breaks are—

- (1) 1853-4. Ireland introduced (exemption limit altered).
- (2) 1866-7. Concerns No. III., Sch. A, transferred to Sch. D.
- (3) 1862-3. Abatements introduced.
- (4) 1872-3. Abatements altered.
- (5) 1876-7. Abatements altered and exemption limit changed.
- (6) 1894-5. Abatements altered and exemption limit changed.
- (7) 1898-9. Abatements altered.
- (8) 1894-5. Repairs allowance introduced.
- (9) 1900-1. Methods of statistical presentation altered, “Net income on which tax received” substituted for “net assessments.”

The *net* income from property, free from personal allowances, can now be computed for comparative purposes.

Breaks (6), (7), and (8) ignored :—

“Sch. A exhibits a rather puzzling anomaly, inasmuch as its gross assessments show for the decade 1891-2 to 1900-1 an increase of $31\frac{1}{2}$ millions sterling, while the income actually taxed declined more than 11 millions.”—W. R. LAWSON, “Two Record Budgets,” *Fortnightly Review*, May, 1903.

OWNERSHIP AND DISTRIBUTION OF PROPERTY: THE NEW DOMESDAY BOOK.

The tax statistics furnish very little information about the ownership of land. Owners are assessed as statutory

“ occupiers ” in certain cases, such as property let for periods less than a year, or houses under £10 in annual value, but otherwise, in taxation “ at the source,” it is the tenant to whom the Revenue looks, and the name and circumstances of the owner are immaterial. Only where the owner is concerned to claim exemption or abatement or some allowance from the assessment is it necessary to take notice of him. The poor rate authorities are even less involved in matters of ownership, and it may therefore be understood why the “ ownership.” column of the valuation list is often so unreliable and out of date: it is only from casual information that the opportunity arises for its correction.

In 1873 a classification of owners as given in the rate books or valuation lists was undertaken and issued as a Parliamentary Return in 1875. It has since been widely known as the “ New Domesday Book,” and is the chief source of information as to the distribution of ownership. A good summary is given by F. Purdy.¹ Classification by extent of holdings :—

Under one acre . . .	703,289
One to 100 acres . . .	227,023
100 to 500 acres . . .	32,317
	962,629
500 to 1,000 acres . . .	4,799
1,000 to 2,000 acres . . .	2,719
Over 2,000 acres . . .	2,689
	10,207

(Total, 972,836 owners.)

Another summary may be found in Dawson’s “ The Unearned Increment ” (p. 54) :—

One quarter of the land of the United Kingdom was held by 1,200 persons (average acreage, 16,200) ; a quarter by 6,200 persons (average acreage, 3,150) ; a quarter by 50,770 persons (average acreage, 380) ; a quarter by 261,830 persons (average acreage, 70). One-half was held by 7,400 persons, and the other half by 312,500. While 4,500 persons held half the area of

¹ S. J., 1876, p. 393.

England and Wales, 1,700 held nine-tenths of Scotland, a single owner having in his hands more than a million and a quarter acres.

"The returns placed the number of landowners at 1,173,724, but the estimate was far too high, as it included hundreds of duplicates and thousands of leaseholders, and besides, 852,438 of the reputed owners held less than an acre of land, their average not being a quarter of an acre each. Recent returns show that the number of separate holdings in France exceeds five and a half millions, and in Germany five and a quarter millions.—DAWSON, *op. cit.*, p. 53.

Similarly, J. Ellis Barker quotes the figures in comparison with Germany (1895), and states that 12.2 per cent. of the English acreage was occupied by owners against 87.4 per cent. in Germany (*Nineteenth Century*, September, 1909).

Major Craigie gave a somewhat destructive criticism of the return before the S. C. on Small Holdings, 1889,¹ dealing with the uncertainty of owners' names and their duplications. It is quite certain that all inquirers do not bring away the same lessons.

A "Re-examination" by W. H. Mallock with regard to the value as well as the extent of the properties, lays stress upon the fact that in Great Britain and Ireland (excluding the metropolis) there were 900,000 "estates less than one acre," gross rental £38,000,000—average rent per acre, £190 ("Statistical Monograph," I.).

Ownership and Use of Property.

Other information has been obtained from returns of agricultural holdings. Major Craigie handed to the S. C. on Small Holdings, 1889,² an analysis of the agricultural returns, in counties, showing the following results:—

—	England.	Wales.	Scotland.	Great Britain.
(1) Returns from occupiers farming their own land. . . .	60,935	6,454	6,044	73,433
(2) Total returns from occupiers .	425,886	62,127	82,193	570,206
(3) Percentage of (1)	14.3	10.4	7.4	12.9
(4) Acreage of land owned and occupied . . .	3,967,675	315,844	626,557	4,910,076
(5) Total acreage .	24,964,483	2,841,402	4,878,514	32,684,399
(6) Percentage of (4)	15.9	11.1	12.8	15.0

¹ Qs. 4,961, etc.

² P. 503 and Q. 4,974.

In the Appendix ¹ to the Report of S. C. on Poor Law in Scotland, 1869-70, details are given by counties and parishes, the totals being—

Annual value of £500 and upwards	.	.	4,106
„ „ £100 to £500	.	.	9,776
„ „ £50 to £100	.	.	11,217
„ „ £20 to £50	.	.	22,844

Total number of holdings	.	.	47,943
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J. Ellis Barker quotes the agricultural holdings returns (from Cd. 4533) to show that freehold properties are in the greatest proportion among smallest holdings (except for those over 300 acres), and to show that freehold is mostly desired by the smallest holders (*Nineteenth Century*, October, 1909).

In 1867 the following classification was given for Irish agricultural holdings ² (thousands):—

—	Counties.	Towns.	Total.
Less than £4 . . .	175	157	
£4 and under £8 . . .	142	41	
£8 and under £10 . . .	48	44	
£10 and under £15 . . .	78		
£15 and under £20 . . .	46		
£20 and under £50 . . .	83	30	
Over £50 . . .	36		
Total . . .	609	272	
Area (acres) . . .	20,190	97	20,815
Valuation . . .	10,191	2,451	13,245
Population . . .	4,286	1,512	5,798

Another classification gave five-sixths as being under £15 per annum, as follows:—Less than £15, 512; £15 and under £30, 94; £30 and under £50, 38; £50 and under £100, 25; over £100, 13—total, 682: of which *tenancies at will* numbered 429, 63, 21, 10, and 3 respectively—total, 526.

¹ P. 366, Vol. II.

² H. C. 144 of 1867.

In 1872 a parliamentary return¹ gave a classification of the assessments on property owned by corporate bodies, in *counties*. The totals were (£) :—

—	Municipal Corporations.	Ecclesiastical and Educational Bodies.	Joint Stock Companies.	Other Corporations.	Totals.
England and Wales .	707	3,141	2,006	2,386	8,240
Scotland	143	330	195	197	866
Ireland	27	197	28	58	310
United Kingdom .	877	3,668	2,229	2,641	9,415

It is not possible at the present time to state what amount is similarly held, but it must be very much greater so far as corporations and companies are concerned.

An interesting return² gives details of the deer forests and lands exclusively devoted to sport in Scotland, in counties other than crofting counties. In eleven counties, with a total area of six million acres, 557,544 are so used, the rental value being £36,118, or less than 1s. 4d. per acre. There were 87,000 acres at 5½d. in Aberdeen, 40,000 at 7d. and 160,000 at 11d.

EARLY SCH. A STATISTICS USED AS EVIDENCE OF INCREASE IN PROPERTY.

The following are given by way of example :—

“A few years after the beginning of the century, viz., in 1802–3, the average annual value of real property, according to the income tax returns, amounted only to about £35,000,000. In 1814 the amount was £53,500,000. In other words, in about ten years time the property of the nation, so far as it was derived from real property, increased about 50 per cent., and we may assume that there was an equal increase in the property itself.”—SIR R. GIFFEN, “Are we Living on Capital?” “Economic Inquiries,” II., p. 291.

Vide also under “Sequence” (p. 38) for similar extended use by Giffen.

Goschen makes similar use, and it would serve little purpose to multiply examples.

¹ H. C. 122—1872.

² H. C. 344—1907.

A Prophecy.—Writing in 1871, Giffen said that the real property worth £150,000,000 then would be worth £250,000,000 in thirty years ("Taxes on Land," "Economic Inquiries," I., p. 275). The actual period was thirty-three years.

Statistics of Messuages used as a Test of Prosperity in the Building Trade.

These figures have been used for this purpose by Sir Algernon West,¹ Mr. W. H. Mallock,² and others.

As it is usually desired to consider this prosperity from year to year rather than over long periods, the statistics are not well adapted for the purpose. In valuation years it is difficult to distinguish increases in values from new values, and in intermediate periods it is necessary to estimate for the downward "drag."³ The total *numbers* of all premises are not subject to quite the same limitations, however, and inferences may be more safely drawn therefrom.⁴

Comparison of Increase in Sch. A and Pauperism.

(1) 1847-65. Sch. A increase 61 per cent., and pauperism 49½ per cent. (S. C. on Poor Law in Scotland, 1869-70, Appendix, p. 479).

(2) Various heads of poor law expenditure measured annually against the aggregate Sch. A assessments from 1845 (S. C. on Poor Law in Scotland, 1869-70, Appendix, p. 453).

Use of Schs. A and B (County Details).

(1) **Trend of Agriculture.**—Caird uses figures for 1878 and 1869, grouped into corn districts, arable, grass, etc. ("Ten Years of British Agriculture," *S. J.*, 1880). F. Purdy compares 1814-15 and 1864-5 (*S. J.*, 1869, p. 308). R. C. on Agriculture, 1896, compares 1870-1, 1879-80, and 1893-4, p. 554. *Royal Agricultural Society's Journal*, 1858, p. 301. R. C. on Land in Wales: comparisons 1842—decadal to 1892. *Vide* also Chapter IX.

¹ R. C. on Depression in Trade and Industry, 1886, Q. 729.

² *Vide* p. 33.

³ *Vide* p. 31.

⁴ *Vide Quarterly Journal of Economics*, 1915, p. 816, R. S. Tucker on "The New Land Taxes in Practice."

(2) **Burden of Land Tax as a Fixed Charge.**—Proportion of Sch. A in each county to the total for comparison with land tax percentages at different periods (F. Hendriks, "British Land Tax Statistics," S. J., 1857).

Use of Sch. A Details (Parishes or Towns).

Ratings and Sch. A compared.—Lumley, S. J., 1858, quotes H. C. 337—1856-7, sess. 2 ; Purdy, S. J., 1869.

MISCELLANEOUS SOURCES OF INFORMATION, OTHER THAN ANNUAL REPORTS.

(1) **Parliamentary Papers.**

H. C. 235—1842. Return of Real Property for England and Wales in Counties, giving the annual value, 1815, and the net rental rated in 1840-1, and annual value per acre.

H. C. 316—1844. Sch. A Assessments, 1842-3 : valuation by Parishes and Counties. The total valuation given in subsequent reports is not *fully* accounted for.

H. C. 102—1845. Return for 1842-3 by Counties, distinguishing details : Lands, Messuages, Quarries, Mines, etc.

H. C. 165—1845. Similar Return to the foregoing, with full details, by Parishes.

H. C. 449—1849. Burdens on Land. Tables comparing 1814-15 with 1842-3. Comparative value of poor rate. Unfairness of Sch. B if profits small (Lord Monteagle's report).

H. C. 185—1851. Sch. A in classes 1814, 1842, 1845, and 1848.

H. C. 680—1852-3. Sch. A Assessments in Metropolitan Parishes.

H. C. 254—1854-5. Sch. A Assessments in Metropolitan Parishes, with comparison, County Rate and Poor Rate Valuations.

H. C. 408—1856. Scotland : County and Parish Return of Valuations.

H. C. 317—1857 (2). County and Borough Return of Sch. A and Population.

H. C. 3—1859. County and Borough Return of Sch. A.

H. C. 123—1859. County and Borough Return of Sch. A.

H. C. 155—1860. Counties and Burghs, Scotland. Income Tax, Voters, Population, etc.

H. C. 332—1860. Cities and Boroughs, England and Wales. Comparison between Sch. A and Gross Poor Rate.

H. C. 393—1860. Sch. A Statistics for certain Cities and Large Towns.

H. C. 400—1860. Poor Rate Assessments by Counties and Parliamentary Divisions (England and Wales).

H. C. 546—1860. Sch. A Assessments, Great Britain, by *Parishes*, 1859-60, giving in great detail Lands, Messuages, Tithes, etc.

H. C. 155—1861. Assessments in Chelsea, Kensington, Hammersmith, Fulham, and Scotland.

H. C. 455—1861. Metropolitan Parishes—Sch. A on Houses.

H. C. 518—1861. Metropolitan Parishes—Sch. A and Poor Rate, Sewers Rate, County Rate Valuations, with rating deductions (gross to net).

H. C. 518—1861. Ditto, Kent, Middlesex, and Surrey.

H. C. 199—1863. Unions in Lancashire. Gross Poor Rate, Rateable Value, and Sch. A, 1860.

H. C. 548—1863. Metropolitan Parishes. Gross Poor Rate and Sch. A 1861-2 and 1862-3.

H. C. 321—1864. Ditto.

H. C. 116—1864. Scales of Rating Deductions in different Unions.

H. C. 568—1864. Cities, Boroughs, and Counties in United Kingdom. Gross Sch. A, 1857 and 1862.

H. C. 113—1865. Scotland—Valuation of Lands and Heritages—in Parishes: (1) Land let; (2) land occupied, including woods; (3) houses; (4) mills and factories; (5) gas and water works; (6) mines, quarries, and railways.

H. C. 477—1865. Classification of Lands, etc., 1864-5.

H. C. 485—1866. Metropolitan Assessments, 1863-4 and 1864-5, by Parishes, Sch. A, and Gross Poor Rate.

H. C. 511—1866. 1814-5, England and Wales, Sch. A, by Counties.

H. C. 524—1866. Scales of Rating Deductions in different Unions.

H. C. 53—1867-8. 1862-3, 1863-4, 1864-5, England and Wales, Sch. A, and Ratings.

H. C. 454—1870. 1842-3 to 1869-70, Great Britain, Sch. A, by Counties.

H. C. 287—1871. Local Taxation—Return for various dates, 1748 to 1870. Population, Sch. A, rate per head, etc.

H. C. 397—1872. Assessments, Sch. A, in Liverpool.

H. C. 42—1874. Scotland—Valuation Rolls: *Parish* Returns for 1855, 1861, 1867, and 1872.

H. C. 368—1869. Five decadal Returns: Gross Assessments.

H. C. 461—1875. England and Wales—Classification in Lands, etc.

H. C. 335—1876. Owners of Land, by Counties, in Great Britain, with Acreages of Holdings and Gross Values (Poor Rate).

H. C. 7—1877. Government Property not rated (no totals).

H. C. 234—1878. Annual Value chargeable under different heads, and duty thereon.

H. C. 292—1882; 206—1883; 25—1884; 235—1884. Return by Counties.

H. C. 20—1884. Agricultural Depression. Repayment of Income Tax to Landlords under certain conditions, 1881-2 and 1882-3.

H. C. 170—1890. Government Property (London)—Rateable Contributions.

H. C. 32—1892. Return by Counties.

H. C. 124—1894; H. C. 42—1896; and H. C. 309—1898. Similar return to 170—1890.

H. C. 204—1895. Rateable Value of Lands, 1869-70, and Gross Value and Rateable Values, 1894: Lands, Buildings, Railways, in each Union. Appendix gives quotation from Goschen's 1870 Report comparing Income Tax on Lands, Houses, etc., 1814, 1843, 1850, 1860, 1868.

H. C. 454—1895 (2). Government Property in the

Provinces : Contribution in lieu of Rates and Valuation (not totalled).

H. C. 217—1896 (continuing 32—1892) County Returns, 1889 to 1894-5, and comparison with 1869-70, 1874-5, 1879-80, and 1884-5.

H. C. 312—1898. Similar return to 454—1895.

H. C. 150—1900. Rateable Values and Wages : Comparative Return 1870, 1894, 1899.

H. C. 307—1901 (continuing 216—1896). Assessments, 1895 to 1899-1900.

H. C. 183—1906. Rateable Hereditaments by *Unions*, 1899 and 1906 : Gross and Rateable Values.

H. C. 344—1907. Deer Forests, Scotland, and Lands devoted to Sport.

H. C. 414—1912-13. Sch. A Classification in *Counties*. Lands, Houses, etc.

H. C. 119—1913. Agricultural Land and Rates paid, 1911-12 : Details for each Municipal Borough and Urban District Council.

(2) **Parliamentary Questions.** (See also
“ (3) Miscellaneous.”)

Hansard (7), 1st July, 1909. Gross annual income Sch. A, Lands, England, Scotland and Ireland, with repairs and agricultural depression statistics.

(3) **Miscellaneous.**

Division of Rateable Property into Lands, Houses, Railways, etc., and percentage of total—1798, 1814 and 1868 ; Tables 9 and 10. Appendix A, p. xxxii., R. C. on Agriculture.

Decline in Value of Lands, Sch. A—Agricultural Depression. R. C. on Depression in Trade, 1886, Table 3.

Wales and Six English Counties, 1842, decadal to 1892. R. C. on Land in Wales, 1893-6.

CHAPTER II.

SCHEDULE B. INCOME FROM THE USE OF LAND.

DEFINITION.—“ For and in respect of the occupation of all such lands, tenements, hereditaments and heritages as aforesaid,¹ and to be charged for every twenty shillings of the annual value thereof . . .”² “ in addition to the duties to be charged under Sch. A . . . except a dwelling house,” not being “ occupied . . . with a farm for the purpose of farming . . . and except warehouses or other buildings occupied for the purpose of carrying on a trade or profession.”³ “ The profits arising from lands occupied as nurseries or gardens for the sale of the produce . . . shall be estimated according to the rules contained in Schedule D . . . and charged under Schedule B as profits arising from the occupation of lands.”⁴

An official definition runs as follows :—“ The tax under Schedule B is chargeable in respect of the occupation of all lands. It is in effect a charge on the profits made by the occupier from the exercise of his capital and skill in husbandry, just as under Schedule D a charge is made on the trader in respect of the profits derived by him from the exercise of his capital and skill in trade.”⁵

It will be observed that the statute begins by making the Sch. B co-extensive with Sch. A, and then proceeds with exceptions. It is probable in strict law that these exceptions do not really limit the sphere of operation to “ lands,” to which it is in practice confined, but that Sch. B could

¹ *I.e.*, under Sch. A.

² 16 & 17 Vict. c. 34, s. 2.

³ 5 & 6 Vict. c. 35, s. 63.

⁴ 5 & 6 Vict. c. 35, s. 63 (viii.). Hop grounds were originally included with nurseries, etc., but were subsequently, in 1853, brought under the ordinary Sch. B.

⁵ 28th Report, p. 80.

actually be charged upon a town-hall or a university lecture-hall !

THE CHARACTER OF "SCH. B" INCOME.

It is important to note that Sch. B is different in character from all the other parts of the income tax. The other schedules, though having conventions and rules, give assessments which move in close relation to actual money income. The Sch. A assessment upon a house occupied by its owner is no real exception when the original assumption is admitted, viz., that every one must pay rent for the house he lives in, even if he pays it to himself, and that a dwelling-house is *sui generis* in a man's possessions or expenses. But Sch. B is made up of two quite different parts :—

(1) A tax on farming products, based on a presumptive or conventional proportion, and independent of all actual variations due to personal factors or temporal changes. This basis was, in 1803, three-fourths of the rental value for England, and one-half in Scotland ; in 1842 and 1853 one-half of the rental value in England and one-third in Scotland, and in 1853 one-third in Ireland ; in 1896, one-third uniformly for the United Kingdom.¹ " It was doubtless owing to the fact that in 1803 farmers did not as a rule keep trade accounts that this system was adopted. . . . In 1842 a suggestion was made by Lord Howick that it would be better to charge farmers under Sch. D, but it appears not to have met with any considerable support."² As a reason for altering the proportion in 1842 Peel expressed " his perfect conviction that the rent of the farmer had been raised in proportion to his profits," and he considered the reduction was " consistent with justice." There is no doubt, moreover, that the reduction of import duties on corn in 1842 was also a reason. This basis is obviously " rough and ready." Its soundness in economic theory is quite open to question.³

¹ The basis was raised to the *full rent* in the Budget of September 1915, while these pages were passing through the press.

² 28th Report, p. 81.

³ *Vide* article on " Land Valuation and Rating Reform " by the present writer, *Economic Journal*, 1911. Some objections on similar lines were ineffectively raised in 1842 (*vide* Hansard's Debates).

Assume that farm A is on the margin of cultivation, and yields no

SCHEDULE B. INCOME FROM USE OF LAND. 83

If a farmer makes more than the assessment he cannot be charged more ; if he makes less, he may claim a reduction. The favourable treatment formerly given to Scotland had its basis partly in a supposed difference in the actual proportion ¹ and partly in the fact that the owner bore certain charges or rates which were paid by the tenant in England and which made the rent correspondingly higher. An adjustment for the latter by itself almost sufficed to equalise the charges. For example :—

	£
1868-9, Sch. B gross assessment in	
Scotland	7,208,000
Approximate rates applicable	
thereto	358,000
English equivalent	6,850,000

economic rent, but £100 interest on owner's capital is paid by the tenant in the name of rent ; that farm B pays £100 interest and £100 economic rent, or £200 rent in all ; and farm C pays £100 and £300 economic rent, or £400 total. Assume that the degree of skill, etc., required is the same in all three and that their profits are in equilibrium, and equal, at £100. The *Sch. B* profit will be—A £33, B £66, and C £133.

Suppose farms A and B each yield a net divisible product of £500, of which £100 is retained by the farmers, and rents of £400 paid. If the owner of farm B has to pay £100 drainage or embankment assessment rate for keeping the sea out, it is a deduction under *Sch. A*, but not under *Sch. B*, and to that extent the law and economic theory agree. But if, as sometimes happens, the tenant pays half the drainage assessment, obviously his rent will be £350, from which the £50 allowance is made for *Sch. A*, but for economic consistency the assessment under *Sch. B* should be one-third of £400, and not of £350.

¹ *Vide* Hansard (12th May, 1853, col. 240). Mr. Gladstone.—“ The hon. member had demanded that he should be placed in the same position as the Scotch and Irish farmer ; but if that were done . . . that concession would be at once made a standing ground for a further appeal to alter the law in favour of the Scotch and Irish farmer. As for the Scotch farmer, his case was irresistible, and was founded partly on acknowledged facts, and partly on reasonable belief. It was founded, in the first place, upon the fact that the public burdens in Scotland, which were mostly borne by the tenants in England, were borne principally by the landlord, and constituted a portion of the rent. . . . The case of the Scotch farmer also rested on the belief that he had a smaller share of the profits from the land than the English farmer had.”

For evidence of the feeling that Irish farmers were “ over-rented,” see Chapters IV. and X.

English income computed at one-half,¹ £3,425,000; Scotch income computed at one-third of the gross £3,403,000. The reduction of the proportion in England in 1896 was made regardless of this difference, and on the presumed merits of the case at that time.²

(2) A large part of Sch. B is not a tax on profits, but a privilege tax or licence, akin to a carriage licence. All land, even though it is not occupied for husbandry or profit, is liable to Sch. B. This is a unique feature in the income tax—the inclusion of an element that is not, and never can be, “income.” It is a tax incidental to possession or enjoyment, but represents nothing that comes within the category of profits or gains. An illustration may perhaps make the fact clearer. If A. is owner of a *farm*, and B. is tenant, the total net produce (which we assume is not *sold*) is divisible between A. and B. as rent and profits, and if A. works the farm himself the two elements remain—they correspond to the Schs. A and B. If, however, A. owns a beautiful *park* which yields no physical *produce*, he may let it to B. and go and live abroad himself. B. pays a rent (which A. turns into consumable goods, so that he is in the same position as before), and this rent represents the *whole annual value* of the enjoyment income of beauty yielded by the park.³ B. consumes what he has paid for, and what he consumes is *purchased*, it is neither earned nor unearned *income*. So that when he pays the tax under Sch. B he pays a licence to keep a park, or a sumptuary presumptive tax on an expenditure indicative of wealth paid out of that wealth which is already *wholly reached and taxed by the other schedules of the tax*. This part of the assessed “income” may be an element in reaching true faculty, but it is not a part of true national income in the ordinary sense. One might quite consistently convert carriage licences by the current

¹ The question of the deduction of one-eighth for tithe does not arise, as it applies to payment of duty rather than to computation of income.

² Proportion raised by Budget of September, 1915, to equal the whole rent.

³ *Vide* Transactions of Surveyors' Institute, 1896: Col. G. W. Raikes on “Re-apportionment of Rates and Taxes.”

rate of tax into terms of "income" and add them to the national income. I draw a distinction between consumption of corn and consumption of beauty for this purpose—they both minister to human needs, but they are of a different order. Let us assume that economic rent is non-existent because there is no differential yield, and because satisfactions are equal to what equivalent effort in other businesses will obtain; the "labour" of walking round a "blackberry farm" provides a fund of food which I may consume as I go along, or which I may store and sell and buy bread with. The equivalent "labour" of walking round my "beauty farm," and securing points of vantage, yields me satisfactions which I *must consume* as I go along and cannot exchange; meanwhile I want for a living, in the vital sense. The satisfactions in the first case are of the order of an income, within the sphere of an income tax; the satisfactions of the second are of a different order altogether and cannot yield a part of themselves as a *money tax*.¹

These considerations are of some importance when the income tax figures are being used for computing national income and national capital,² and also when that section of the whole assessments actually applicable to persons liable to tax is being treated as the income of liable *farmers*.³ Unlike the tax on farmers' profits, this tax on occupation is payable in any event, and absence from home does not render the occupation "void." If farmers' profits were to be transferred to Sch. D, this section would stand out clearly in its own special character.

The distinction between the two sections is of course not always clearly cut. There are some lands which are yielding produce, but not to the fullest extent of ordinary husbandry: the experimental or hobby farming of some home farms attached to great estates, in which the making of a commercial profit is a secondary consideration, is a case in point.

¹ The value of sporting attached to lands is included under Sch. B as well as under Sch. A when land is occupied by the owner, and the position taken in the text is therefore emphasised.

² *Vide* p. 386.

³ *Vide* p. 103.

Actually what comes within the terms "occupying lands for purposes of husbandry only"¹ is sometimes a nice question.

The abolition of Sch. B and the transfer of farming profits to Sch. D has been advocated for many years. It was mentioned in the evidence before the 1851-2 Committee, and also by Giffen before the R. C. on Trade Depression, 1886.²

SCOPE OF SCH. B STATISTICS.

The Sch. B assessments, like the Sch. A, are comprehensive³—they cover *all* land, and not merely land owned or occupied by persons liable to tax. They approximate as closely to the true values as Sch. A assessments;⁴ they exhibit the same effects of re-assessment as Sch. A assessments on lands;⁵ and the differences between England and Wales, Scotland and Ireland, are precisely those detailed under Sch. A.⁶ In fact, they are so closely similar to the latter that for all ordinary statistical uses the two sets of gross assessments may be used indifferently.⁷

It is not an uncommon error to suppose that small holdings and allotments as well as peasant farms are omitted from the Sch. B values:—

(1) Quotation from Report of Committee of the British Association on Amount and Distribution of Income below the Exemption Limit, p. 103.

(2) Professor Sidgwick, misled by Giffen's statement that a large part of the £7,000,000 Irish Sch. B exempt assessment (then assessed on the full rent) was "peasant class income," deducted £3,000,000 on this account, comparing the *balance* with Great Britain, from which he made *no* corresponding deductions, apparently assuming that no "peasant class tenants" were included in our assessments (note in Appendix I., p. 180, R. C. on Financial Relations, 1894).

¹ The criterion for the right to appeal to have actual profits substituted for the fixed assessment.

² Qs. 755, etc., and general evidence on Sch. B to Q. 775.

³ *Vide* p. 39.

⁴ *Vide* p. 35.

⁵ *Vide* p. 31, and Table A3.

⁶ "The nearest approach to a record of agricultural rent" (Major Craigie, *S. J.*, 1880, p. 304).

⁷ *Vide* p. 87.

But it is important to note that the official tables give only the net Sch. B liable to duty in Ireland for the earlier years (see Appendix III. and Table B).

The actual omissions from the assessments are :—

- (1) Property occupied by the Crown ;
- (2) Gardens under one acre in extent attached to dwellings and assessed to House Duty (*q.v.*) ;
- (3) Various profits enumerated under the “ Differences between Sch. A assessments on lands, etc., and Sch. B assessments.”

DIFFERENCES BETWEEN SCH. A ASSESSMENTS ON “ LANDS, ETC.,” AND SCH. B ASSESSMENTS.

Although similar, the two sets of figures never exactly agree.¹ In the first place, there are some few items classed under this head for Sch. A that are not assessed to Sch. B, such as land in connection with works, waste and building land, and public recreation grounds rented. In the second place, nurseries and market gardens are assessed on their rental value under Sch. A, but on their *profits* under Sch. B. In the third place, since farmers may “ elect to be assessed under Sch. D,”² no assessments exist under Sch. B to correspond with the Sch. A assessments upon the lands affected by the operation of this clause. Fourthly, there are some minor administrative reasons for other differences. In the net result it will be found that the Sch. A totals are generally slightly in excess of Sch. B.

SCH. B GROSS ASSESSMENTS—STATISTICAL SEQUENCE FROM 1842.

(1) **Break in 1853–4** (introduction of Ireland).—The Irish figures introduced at this date into the official tables are *net* only. The estimated gross assessments for these early years may be taken as practically the same as Lands. Table A 3.

(2) **Break in 1873–4**.—The Irish Sch. B is given in the official tables for the first time (*gross*).³

¹ R. C. on Land in Wales, 1893–6, Qs. 76,545, etc.

² 50 & 51 Vict. c. 15, s. 18 ; *vide* p. 93.

³ *Vide* S. J., 1880, p. 304 (Major Craigie).

(3) **Break in 1876-7.**—The value of farmhouses was not previously included in the Irish statistics. The estimated correction is made in Table A3 (*vide* Appendix III.).

(4) **Break in 1896.**—The gross assessments under Sch. B were subjected to a change of great statistical importance by the Finance Act of 1896, which simplified previously existing methods of making assessments upon farm profits and of estimating a farmer's total income for purposes of exemption and abatement. Under the Acts of 1842 and 1853 the assessments were made upon the full annual value of the land, but a special rate of duty was charged thereon, subject to a deduction of one-eighth of the duty on lands that were tithe free. A farmer's income, for the purpose of computing his total income for exemption or abatement, was deemed to be one-half of the full annual value in England and Wales, but only one-third in Scotland and Ireland ;¹ while the special rates of tax charged were based upon these proportions—*i.e.*, a leading rate of 7*d.* for the other schedules gave a rate of 3½*d.* in England and 2½*d.* in Scotland and Ireland, while 5*d.* gave 2½*d.* and 1¾*d.* respectively, and 8*d.* gave 4*d.* and 3*d.* respectively.² In 1894 the rate was made uniform—3*d.* for the whole kingdom, with a leading rate of 8*d.* But in 1896 the one-eighth deduction ceased to exist, the special rate was abolished, and the leading rate was made payable upon *one-third* of the full annual value.³ The proportions in the old income tax, which obtained from 1803 to 1816, were three-fourths of the rent in England, and one-half of the rent in Scotland.

The alteration has been frequently misunderstood :—

“ As to the earnings of this class, we have official evidence which is sufficient. Certain figures with regard to them are given in the income tax returns (Sch. B). These, however, as they stand now, are most misleading. The farmers' profits have, for purposes of assessment, been theoretically reduced since the year 1896. Up to that date they were estimated as being about equal to the rent (see Cd. 4954, p. 137). Since that date it has

¹ 5 & 6 Vict. c. 35, s. 167, and 16 & 17 Vict. c. 34, s. 28.

² 41st Report, p. 98.

³ Finance Act, 1896, s. 28.

been assumed that they amount only to one third."—W. H. MALLOCK, "The Nation as a Business Firm," p. 114.

The same statement is repeated in "Statistical Monograph," No. 30. *Vide* also p. 94.

Statistically these changes are of great importance. Down to 1896-7 the statistics given for Sch. B are those of "gross assessment" or gross annual value, and what they are intended to represent in terms of income must be computed by reference to the proportions above quoted. But since 1896-7 the gross assessment under Sch. B is only one-third of the gross annual value, and it is intended *in itself* to represent "income." Assuming for the moment that the present proportion is a correct one, the Sch. B assessment is now comparable with other schedules, whereas before 1896-7 it was not comparable, and when the totals were included in a general aggregate of assessments under all schedules, to represent total taxable income, it was a quantity wholly unlike the others, as if one should include 50 fowls with 100 bullocks and 100 horses and speak of a total of 250 cattle. Before inclusion with the totals of other schedules the Sch. B totals should be reduced to terms of income.

As examples of errors arising through treating the assessments as income¹—

All the computations in the evidence, etc., given before the R. C. on Financial Relations between Great Britain and Ireland, dealing with Sch. B, treated the assessments as equivalent to income¹ (*vide* Appendix and Qs. 7,722, etc.)

"In the year 1890-1 the assessments under Sch. D in respect of profits from the occupation of lands, the occupiers of which availed themselves of this option, amounted to £6,826, *whereas* the assessments which would have been made under Sch. B on the yearly rent or value of such lands would have amounted to £55,977" (Board of Agriculture Leaflet, A $\frac{2-93}{1}$). This is certainly so expressed as to suggest that the two sums are comparable.

Giffen took the Sch. B, and "for some reason which was not made quite clear he took the *gross* assessment," instead of one-half, as the income, and multiplied by 10, getting twice Craigie's figure. He afterwards defended this course: "The presumption

¹ Pointed out by Major Craigie, *S. J.*, 1887, p. 324.

of law . . . gives no better guide what those profits are than the rental itself. The one is just as good as the other."—REW, "Farming Revenue and Capital," Journal of Agricultural Society, 1895.

The majority of cases arise, however, not upon the use of the Sch. B figures by themselves, but in the aggregation of all the schedules, where this change can easily be overlooked.

Two courses are open for this purpose. We may assume that the proportions in force under the statutes from time to time were the true ones, or we may assume that the general "one-third" should properly have existed throughout.

In making comparisons of years not far removed from each other and on either side of the change, it is perhaps desirable to treat the matter uniformly by employing one proportion. Over a long period, however, it may fairly be assumed that the statutory difference did reflect a real difference, and therefore it may be better to adhere to the statutory terms. On the one hand it would be absurd to assume that in 1892 profits really were one-half the rent and that in 1900 they were one-third, while on the other hand in the middle of the nineteenth century it is probable that the proportion was actually higher than at the end. In any case, the method employed must be clearly stated.

The most frequent "pitfall" brought about by the change of method is in the comparison of aggregate tax assessments without allowing for the break of £37,000,000.

For examples, *vide* p. 288, on "Comparisons of Years."

Table B1 gives the actual gross assessments under Sch. B since 1842, reduced to the income computed therefrom on the statutory basis actually existing at the time. The income on the present basis is given officially from 1888-9 to 1895-6 with a corresponding comparison of net assessments.¹ It is necessary to deduct from the gross total for England the profits of nurseries and market gardens (charged according to the rules of Sch. D), to divide the remainder by 3 or 2 as the case may be, and to add the

¹ 41st Report, p. 110.

SCHEDULE B. INCOME FROM USE OF LAND. 91

TABLE BI.—Sch. B: Income, on Statutory Basis (million £).

	Liable.					Exempt.			Total. Exempt and Liable.
	England and Wales.	Scotland.	Ireland.	Total. United Kingdom.	England and Wales.	Scotland.	Ireland.	Total.	
—									
1842-3	12.20	.81	1.06	14.07	8.72	.96	2.45	12.13	26.20
1843-4	12.03	.74	1.06	13.83	8.42	1.00	2.45	11.87	25.70
1846-7	11.67	.74	1.06	13.47	8.99	1.11	2.45	12.55	26.02
1849-50	11.69	.76	1.04	13.49	9.64	1.10	2.40	13.14	26.63
1852-3	10.84	.74	.93	12.51	9.79	1.10	2.15	13.04	25.55
1854-5	13.74	.98	.87	15.59	6.72	.92	2.11	9.75	25.34
1858-9	14.90	1.14	.92	16.96	6.47	.93	2.22	9.62	26.58
1862-3	15.83	1.29	.98	18.10	6.52	.94	2.26	9.72	27.82
1865-6	16.97	1.24	.98	19.19	6.28	.94	2.31	9.43	28.62
1868-9	17.61	1.46	1.01	20.08	6.28	.94	2.31	9.53	29.61
1871-2	18.38	1.50	.98	20.86	6.13	.93	2.31	9.37	30.23
1874-5	19.06	1.58	.96	21.60	5.98	.91	2.35	9.24	30.84
1877-8	18.62	1.50	.91	21.03	7.23	1.05	2.40	10.68	31.71
1880-1	17.72	1.47	.91	20.10	8.10	1.09	2.41	11.60	31.70
1883-4	15.69	1.40	.91	18.00	8.39	1.10	2.42	11.91	29.91
1886-7	14.06	1.26	.86	16.18	8.65	1.10	2.43	12.18	28.36
1889-90	12.38	1.10	.86	14.34	8.76	1.03	2.46	12.25	26.59
1894-5	11.91	1.00	.86	13.77	9.01	1.06	2.43	12.50	26.27
1899-1900	5.27	.88	.78	6.94	7.09	1.10	2.47	10.65	17.59
1904-5	4.76	.82	.74	6.32	7.54	1.12	2.50	11.15	17.48
1911-2	4.41	.82	.72	5.95	7.90	1.10	2.51	11.51	17.46

Note.—The year following the re-assessment year has been taken in each case, the intermediate fluctuations being insignificant. For England and Wales the basis of one-half the rent existed down to 1896; the remainder is upon the basis of one-third. The effects of the changes in exemption limit, 1853-4 and 1876, are obvious. *Vide* Appendices for details, and estimates for Ireland.

profits of nurseries, etc., to the result. The intervening steps are omitted in the table (see Appendix II.).

DEDUCTIONS FROM GROSS ASSESSMENTS.

(1) **Exemptions.**—The official tables have given the actual sums deducted from the assessment under this head, without showing the estimated equivalent in *income*, down to 1896.¹

At the present time, upon the basis of assessment at one-third the rent, by far the greater part comes under this head, and a considerable part of the eleven and a half million now “exempt” is really the income of persons who should be regarded as liable. Exactly what proportion would be exempt on any other basis of assessment cannot readily be computed. The net assessment on liable persons is given in Table B1.

(2) **Empty Property.**—These allowances refer mainly to building sites and land which has become waste. In the ordinary course “land” does not become void, in the same sense as houses do, for income tax purposes.

(3) **Other Allowances, Reductions, and Discharges.**—This covers reductions in rent, temporary abatements and remissions in rent (to the extent of one-third), losses and cases where profits are reduced below the one-third basis on appeal.

(4) **Abatements, Life Insurance Premiums and Relief in respect of Children.**—No comment beyond that given under Sch. A in Chapter I. and also Chapter VIII. is necessary.

SCH. B NET ASSESSMENTS : STATISTICAL SEQUENCE.

The chief breaks are as follows :—

- (1) 1853-4. Ireland introduced.
- (2) 1853-4. Exemption limit lowered.
- (3) 1861-2. Abatement introduced.
- (4) 1872-3. Abatement altered.
- (5) 1876-7. Abatement altered and exemption limit raised.

¹ For the effect, see notes in Appendix III. on Table B1.

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- (6) 1894-5. Abatement altered and exemption limit raised.
- (7) 1898-9. Abatement altered.
- (8) 1876-7. Farmhouses in Ireland (*vide* "Appendix III." 1).
- (9) 1879-80. Method of computing one-eighth deduction altered.
- (10) 1896. Basis of assessment changed.
- (11) 1900. "Net assessments" in statistics altered to "net income upon which tax is received."

The following is an example of fallacious comparison (breaks (6), (7), and (10)) :—

"Sch. B makes a deplorable exhibit. The gross assessment fell during the decade from £19,487,000 to £17,608,000—a loss of nearly two millions. But the tax-paying income of the farmers appears to be a rapidly vanishing quantity. In 1900-1 it had declined to £4,706,000 as against £7,138,000 ten years before—a shrinkage of fully two and half millions sterling. In both years notice should be taken of the large proportion of farming income that had—no doubt for good and sufficient reasons (!)—to be exempted. In 1891-2 . . . less than 40 per cent. paid income tax. In 1900-1, 80 per cent. had to be let off. These at least are not signs of very progressive *wealth*."—W. R. LAWSON, "Two Record Budgets," 1860 and 1903, *Fortnightly Review*, May, 1903.

FARMERS "ELECTING TO BE ASSESSED UNDER SCH. D."

It has already been pointed out that a farmer need not be prejudiced by the "one-third" basis if his profits are less. He has three remedies :—

(1) **Profits falling short of the Sch. B Assessment.**—In 1851 a reduction was conceded to tenant farmers. In 1853 and 1880 it was extended to all persons occupying lands for the purposes of husbandry only, whether principally engaged in husbandry or not. These provisions were superseded in 1896, when it was enacted that any person

occupying lands for the purpose of husbandry only could appeal at the *end of the year*, and obtain reduction of assessment and repayment of tax, if necessary, down to the profits of the year. This does *not* affect gross assessments in the statistics at all; the allowances are made by schedule or repayment, and at the present time form part of the deductions (overcharges).

(2) **Losses.**—Under the Customs and Inland Revenue Act of 1890, not only is the duty on the Sch. B assessment waived, but the amount of loss is repayable against any other duty paid. This again does not affect gross assessments.

(3) **Assessment under Sch. D.**—Since 1887 any person occupying land for the purposes of husbandry only can elect to be assessed under Sch. D by giving notice within two months after the commencement of the year of assessment. The following table shows the number who have so elected, and it will be seen that the effect has been unimportant. The “boom” in 1893–4 came at the time of the depression when the provision was, in a re-assessment year, published very widely. The Sch. B profits now are one-third of the third column, and the actual profits in the fourth column may be compared. These figures *do* affect the gross assessments, being omitted altogether.

Mr. W. H. Mallock says the one-third is “obviously untrue to fact; for if it were true, a farmer renting 100 acres of land at about £1 per acre would not make an income of more than £33, which is absurd. This fact receives comment and illustration in Blue-book Cd. 4868, p. 149 (52nd Report), where it is made evident that the true profits of the farmer are really about equal to his rent, as had always been assumed previously. The gross profits, therefore, arising from the occupation of land were in 1905 about £52,000,000” (“The Nation as a Business Firm,” p. 115). A glance at the “comment” referred to will show that Mr. Mallock has quite misunderstood the facts. The official Table 186 gives the number of farmers who elected to be assessed under Sch. D instead of Sch. B for ten years to 1907–8. To the heading “*Rental Value* of the Lands occupied by such Farmers—United Kingdom” is an asterisked footnote: “Had the farmers been assessed under Sch. B the assessments would

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have been on one-third of the amounts shown in this column " ; and his inference was that the column showed profits, whereas the *adjoining* column gives the *actual profits*, which so far from being equal to the rent, or even one-third of it, are only *one-eighth* (rental value, £140,820 ; profits, £17,758).

TABLE B2.—Farmers who elected to be assessed Sch. D instead of Sch. B (United Kingdom).

Year.	Number who Elected.*	Annual Rental Value of Lands affected, £000.	Amount of Profits Assessable.	
			Gross, £000.	Net (liable cases).
1887	143	28·8	1·6	1·4
1888	163	56·7	9·6	7·4
1899	136	54·6	6·7	5·0
1890	134	56·0	6·8	5·4
1891	116	47·2	7·2	5·7
1892	112	48·4	17·9	12·6
1893	552†	229·7	12·7	8·3
1894	485	208·7	12·9	8·2
1895	431	190·0	9·9	5·5
1896	405	178·7	10·7	6·7
1897	376	172·9	10·9	Not given.
1898	301	124·1	12·7	
1899	265	116·0	13·3	
1900	260	115·4	14·4	
1901	287	115·1	12·5	Not given.
1902	302	116·2	11·0	
1903	218	99·8	10·1	
1904	254	135·4	12·3	
1905	256	128·1	13·8	
1906	255	126·9	14·5	
1907	291	140·8	17·8	
1908	312	146·3	18·7	
1909	292	132·4	18·8	
1910	348	142·7	19·2	
1911	364	126·4	18·3	
1912	322	122·6	21·5	
1913	332	124·1	13·0	

* Not all these were actually charged to tax. For example, in both 1895-6 and 1897-8 only 92 were liable to income tax, and in 1896-7 91 were liable.

† This increase followed a circular letter to farmers issued by the Board of Agriculture. (*Vide* R. C. on Agriculture, 1896, Q. 45,455.)

It should be noted that these provisions apply to the occupation of land for *husbandry only*; and therefore woodlands and park lands are excluded, while it is sometimes a debatable point whether certain kinds of fancy farming and experimental farming come within this clause. Although "home farms" are often managed by capable bailiffs, they frequently make continuous "losses"—obviously the commercial element is not really present, and although produce may appear to be valued at reasonable prices, early or fine specimens may be responsible for expenses quite out of proportion to the value assigned.

SCH. B "STATUTORY INCOME" AND THE TRUE INCOME OF FARMERS.

The extent to which Sch. B "statutory" income differs from, or approximates to, the true income from farming has been many times under discussion.¹ Dr. Bowley says "the average income of farmers is . . . a task which has always proved beyond the power of statisticians."² But nearly all are agreed that the present statutory proportion of one-third of the rent is far too low. Dr. Bowley's comment is a typical one:—

"No one will believe that the average income of farmers holding 300 acres and under is as little as £43, *i.e.*, one-third of the average computed rental.³ It is just conceivable that the cash income may not be much greater, but in such a case considerable value of the produce grown is consumed at home by the farmer and his family, who are also provided with a house. We shall probably be on safe ground if we take the average income for this group as £60 $\pm$ 30, that is, the average profit per acre is between 7s. 6d. and 22s. 6d." ("The Amount and Distribution of Income," *S. J.*, 1910, p. 58).

But his conclusion that the one-third average profits is not to be accepted because less than 300 farmers choose the alternative of Sch. D⁴ is not really inevitable. The farmer

¹ *Vide* Giffen's evidence, R. C. on Trade Depression, 1886; and see Qs. 8,794, etc., to 9,674, and p. 100, Final Report.

² "The Amount and Distribution of Income," *S. J.*, 1910.

³ *I.e.*, at 32s. per acre (*Vide* p. 103).

⁴ *Vide*, p. 93.

who elects to be assessed Sch. D is assessable on his actual profits, whereas the farmer who accepts the ordinary Sch. B assessment gains by it whenever his profits are more than the assessment, and whenever they are *less* he can get the assessment reduced to the actual amount.¹ It is a case where sauce for the goose is not sauce for the gander. Moreover, it is too wide an inference to draw from the small number of farmers liable to tax who are interested in making the "election" referred to; even if true of the few large farms it would not necessarily be true of the farms of average size.

The R. C. on Agricultural Depression (1894 to 1896) examined closely into the question of farmers' profits, and obtained a number of actual accounts which are summarised in the Appendix to their Report, where the relation of profits to rent is expressly examined. The following is a condensed summary of the conclusions:—

Summary of 106 Farm Accounts, 1897. (1889-94, years generally available.)—Acres, 42,966. Outgoings, £217,424, or £5.12 per acre on 38,941 acres. Labour, £47,099, (£1 4s. 6d. per acre), or 21.9 per cent. of total outgoings. Cost of fertilisers and seeds, £47,548 (£1 5s. per acre), or 22½ per cent. of outgoings. Rent, £39,530 (£1 os. 7½d. per acre), or 18.5 per cent. of outgoings. Rates and taxes imperfect, and tenants' capital incomplete. Average profits, £6,553—loss, £6,452=net profit, £101 on 42,966 acres.

These totals are given on p. 137 of the Appendix. But on p. 49 we are told that "it would be a grave mathematical error to place all these accounts on the same level and strike an average result." They really consist of three classes:—

- A. Detailed accounts given by *bonâ fide* tenant farmers.
- B. Summary accounts given by *bonâ fide* tenant farmers.
- C. Accounts furnished by persons occupying their own land.²

For *Class A* results are given covering the period 1875 to 1894, but they do not relate to the same cases for the whole period. Only from 1885 do they exceed twenty cases, being

¹ *Vide* p. 94.

² The accounts under B are defective in detail for comparisons. Under C the profits are far less on the average than in A.

forty-eight for 1893. The variations are such that they can hardly be regarded as an ideal sample, but if dealt with solely in percentages, the disadvantages are minimised. The report says: "Up to a recent period a tenant farmer's average profit was estimated at one-half of the gross rent *minus* one-eighth, that is, seven-sixteenths or 43·75 per cent. of the gross rent. If the profits and losses of the several years be compared with this standard, it will be seen that in only nine years out of twenty did the profit exceed that proportion; but in some cases the excess was considerable. . . ."

The percentages were as follows :—

Good Years.	Lean Years.	Bad Years.
1875 + 47·5	1878 + 2·8	1880 — 18·1
1876 + 76·4	1879 + 8·5	1893 — 17·8
1877 + 71·3	1881 — 0·6	1894 — 23·6
1882 + 58·2	1884 + 11·8	
1883 + 56·5	1885 — 0·2	
1888 + 44·2	1886 + 14·2	
1889 + 68·0	1887 + 10·9	
1890 + 60·8	1892 — 0·27	
1891 + 59·2		

Taken in four-yearly averages :—1875–8, 49·5 ; 1879–82, 12·0 ; 1883–6, 20·6 ; 1887–90, 45·8 ; 1891–4, 3·8.

It should be noted as an important fact that the average size of the farms in these samples was over 500 acres in all years, and sometimes over 700 acres.

The Report says : "*Primâ facie*, accounts of this character are presented by men of exceptional business capacity and fairly sound position, and they therefore represent conditions more favourable than the average. Taking the whole of these accounts as one for each separate year, it appears that the average profit over the twenty years was about a quarter of the rent (26·66 per cent.) . . . instead of 43·75, the old basis of estimation for purposes of income tax."¹ A later paragraph tends to criticise this as rather lower than the facts on account of the use of the farmhouse as a

¹ Quoted by Nicholson, "Rates and Taxes in Agriculture," p. 101.

residence, and expresses a doubt as to whether in all cases proper account had been taken of the consumption of farm produce.¹

The question whether this sample of large farms has any value in application to farms generally is not dealt with by the Commissioners. They endeavour to summarise the conflicting evidence as to large or small farms "feeling the depression more or weathering the storm" better.² With such a large number of witnesses there were naturally differences of opinion, but my own view is that those who considered small farms had been less affected give the clearest testimony, and that moderate-sized farms (100 to 300 acres) held the securest position. But even a definite answer on this point is not necessarily conclusive as to the value of the sample. Proportionate reductions of income are not *felt* as proportionate sacrifices, otherwise the whole theory of progressive taxation is unsound. If the £160 income was reduced by one-fourth—to £120, the depression would be felt as more severe than a similar reduction of the £480 income to £360. Therefore, if all farms *felt* the depression equally, the actual reduction of profits was progressive, and if the small and moderate-sized farms *felt* depression less than large farms (as so many witnesses thought), then the reduction of the smaller profits was *far less* in proportion than that of the larger farms. There is nothing in these samples or in the whole of the evidence to compel the belief that the average farmer of 150 acres had an income (including that taken in kind) for twenty years of less than 20s. a week to cover his own labour and that of his wife. This figure includes the interest on his own capital, which at 5 per cent. on an average sum per acre would alone amount to £45 or £50 per annum; yet the evidence is clear that even at that time there was no lack of applicants for medium farms. The present Sch. B basis is hardly equal to a reasonable percentage upon capital, and leaves nothing as remuneration for labour or "profit." One witness regarded twenty acres as the least upon which a

¹ R. C. on Agricultural Depression, Appendix, p. 118.

² Pp. 33—36.

"living" was possible; the Sch. B profit is about 3s. 6d. per week on such a holding!

Just as we should decline to draw from the results of a period of depression inferences to be applied to periods prior and subsequent thereto, so we should hesitate to apply the results derived from the accounts of large farms to farms of smaller acreage. It is undeniably difficult to get good evidence for the latter. While it was possible for a professor of agriculture fifty years ago to say "the necessity for keeping some kind of accounts is generally admitted by farmers,"¹ we find an expert declaring recently: "I suppose it is true that the majority of farmers keep no accounts, and it might be argued that they get on well enough without them."²

My own experience is that a fair number of farmers keep a rough list of their chief expenses, and some account of their sales, but that stock is rarely taken periodically with any exactness, and an account purporting to show the annual profit generally contains a good many estimates. A common admission (when taxation is not under discussion!) is that a profit *equal* to the rent on the average is a reasonable experience for normal years. This was a general view forty years ago, well on into the seventies.³ In 1875

¹ J. Coleman, Journal of Royal Agricultural Society, 1858, p. 122. *Vide* also S. C. on Income Tax, 1851-2, Q. 2,930.

² C. S. Orwin, "Farm Accounts," Journal of Farmers' Club, March, 1913. *Vide* also D. C. on Imperial and Local Taxation, Qs. 9,084, etc.

³ *Vide* C. Oakley's Presidential Address to the Surveyors' Institute, Transactions, 1897. Laverge, writing on "The Rural Economy of Great Britain and Ireland" in 1854, gave the following estimates:—

	England and Wales.	Scotland.	Ireland.
	£ s. d.	£ s. d.	£ s. d.
Proprietor's rent, per acre . .	1 3 5	0 10 0	0 10 0
Profit of farmer .	0 12 6	0 8 0	0 2 8
Local taxes . .	0 7 9½	0 1 0	0 1 8
Accessory expenses	0 15 7½	0 6 0	0 1 8
Wages	0 19 0	0 8 0	0 16 0
Total	£3 18 4½	£1 13 0	£1 12 0

Quoted in Appendix to Report from the S. C. on Taxation of Ireland, p. 335.

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Mr. F. Clifford¹ said that over an average of years 8 to 10 per cent. on the farmer's capital was "fortunate"; this would represent about £1 per acre, or rather less than the average rent. One instance given for the eight years 1865-6 to 1872-3 related to a farm of 367 acres, rent £538, labour bill £597; and the profit averaged £392 *after charging* interest at 4 per cent. on capital £3,800, or a profit of 14 per cent. in all. The extent to which rents have been reduced since this date must be remembered. "The higher the rent a man pays the less are his profits and the higher his income tax."² There is no doubt, however, that profits for medium farmers fell much below this standard subsequently, and that income equal to half the rent was "not very wide of the mark for an average estimate."³

Coming to more recent times the proportion has probably risen again. Sir Richard Paget, in an actual instance of a farm letting on a profit-sharing scheme of his own, has based the contract on the following facts and assumptions:— Assume divisible profits £4 per acre at least (100 acres) = £400; this divided, £60 as interest on farm capital £1,500 *lent* to the tenant, and the balance £340 equally, the value of the farm being taken as £4,500 and the tenant credited with an equal sum for management. This is really £230 as the farmer's (Sch. B) profit compared with the £170 (Sch. A) owner's rent. The writer also discusses the division of profits £5 per acre,⁴ in which the farmer's share is even greater.

An interesting comparison between total net income and Sch. B for Ireland is given in Chapter X.⁵

The profits of farmers, for Great Britain as a whole, have been

¹ "Labour Bill in Farming," Journal of Royal Agricultural Society, p. 84.

² J. Richards, Journal of Farmers' Club, March, 1913.

³ A. Dudley Clarke, Journal of the Royal Agricultural Society, 1893, p. 23.

⁴ Sir R. Paget, "Division of Capital in Agriculture as between Landlord and Tenant," Journal of the Farmers' Club, March, 1914.

⁵ For a comparison between Ireland and England, see Sir J. Caird, S. J., 1881, p. 635.

estimated from the "net output" of farm produce. The following gives a recent summary :—

Total sales to non-agriculturists, less materials used	£	110,000,000
Produce consumed by farmers, and allowances to labourers		10,000,000
Value divisible		120,000,000
Rent ¹	£38,500,000	
Wages, according to independent calculation	£46,000,000	
		<u>84,500,000</u>
Difference, representing profits of farmers (including £8,000,000 produce consumed by them)		35,500,000

"There are, of course, very great possibilities of error in the table,² but it roughly coincides with conditions on typical farms where the occupier's family supplies none of the labour required. In such cases £1 of rent for a £1 of profit is a fairly common rule, while the wages bill frequently amounts to as much as 40 per cent. more than either rent or profits. If the problem is looked at from the point of view of the occupiers' families as a whole . . . the distribution . . ." would give £51,000,000 as their share and £30,500,000 as the share of wage labourers. "The profits of occupiers represent an average annual income of about £100 a year, of which £16 is taken from the farm in kind. Out of it have to be found rates, insurance, and replacement of the tenant's capital, in addition to the personal expenses of the family" (*Economist*, 1913, p. 1,177).

The total Sch. A value of agricultural land in Great Britain, taken by the *Economist* for 1907 at £38,500,000,³ is allocated as follows :—

Tithe, taxes, management, and insurance	£	3,850,000	10 per cent.
Repairs	3,850,000	10	"
Improvements and sinking fund	5,775,000	15	"
Interest on landlord's capital	16,170,000	42	"
Net "economic rent"	8,855,000	23	"
Total		<u>38,500,000</u>	

¹ *Vide* p. 49.

² The actual table referred to is differently arranged from the one here given, where the profit has been presented as a residuum.

³ *Vide* p. 27 for comment on the way in which this figure is arrived at.

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The data for this division are taken from Mr. Thompson's paper in the *Statistical Journal* for 1907 (*Economist*, 1913, p. 1,176).

Mr. Mallock has an interesting analysis on similar lines :—

	1907. £ million.
Rent paid to landlords in respect of land as such	13·25
Interest paid by tenant on landlord's capital .	13·25
Cost of upkeep as paid by landlords .	7·5
Wages	48·0
	82·0
Farmer's net income :	
Rent going to working owners	5·7
Upkeep	·3
Farmer's profits	29·8
Upkeep	2·2
Total value of products, minus materials .	120·0
(" Statistical Monograph," No. 30, 1913.)	

The general conclusion that, on the average, profits are now practically equal to rents has recently been supported by Sir R. Edgcumbe,¹ who considers that "the best farmers generally clear a good deal more."

Value of Land per Acre.

In the Report of the Committee of the British Association on "The Amount and Distribution of Income (other than wages) below the Income Tax Exemption limit" (S. J., 1910, p. 57), there is an ingenious attempt to find the average value per acre by fitting the *liable* Schedule B assessments against the largest holdings (as given in the Board of Agriculture returns). It is fixed at 32s., for if more "is assumed, farms of less than 300 acres would pay tax, and then the acreage included would show more than £15,000,000 rent . . . if less . . . the figures fail to be consistent in the opposite direction." The attempt fails upon the first assumption: the liable Schedule B assessment is to a great extent not from *large* farms at all, but from parks, woods, glebe, home-farms, and odd parcels of land occupied by people *otherwise* liable. If we assume one half to

¹ Before the Eighty Club, 2nd December, 1912. See also D. C. on Imperial and Local Taxation, Qs. 6,087, 8,907-8, 9,098-9,100, 9,152-6, etc.

be applicable to large farms, the point of equilibrium would be at a rental of about 24s. per acre. The Committee got into difficulties at the lower end, and were forced to assume, quite erroneously, that "the profits of small holdings are not returned to the surveyor."

Sir J. Barton stated that nearly all the "liable" Schedule B tax paid in Ireland is from landlords on their demesnes.¹

NUMBERS OF SEPARATE PROPERTIES ASSESSED.

For many years official statistics were available as to the numbers of properties assessed.

The relationship between the statistics of the "number of separate properties assessed under Sch. B" and the "holdings" returned by the Board of Agriculture has been studied by Major Craigie, who found they were "in no sense comparable" (England and Wales, 798,800 against 475,100; Scotland, 79,300 against 80,700; and Ireland, 718,000 against 565,300; United Kingdom, 1,596,000 against 1,121,000). He accounted for the differences as follows:—(1) Properties occupied by the same man, counted separately for Sch. B; (2) "holdings" exclude plots less than a quarter of an acre; (3) "holdings" refer only to the technical "cultivated area," 24 per cent. short of the full area in England, 40 per cent. in Wales, and 75 per cent. in Scotland. The figures for Scotland he could not explain ("Size and Distribution of Agricultural Holdings," *S. J.*, 1887, p. 88).

Major Craigie, in a return handed to the S. C. on Small Holdings, 1889,² contrasted the numbers of Sch. B assessments from 1869 to 1888 with the Agricultural Returns each year in order to confirm the indications in the latter of increasing subdivisions of holdings. This confirmation was general only, and, in view of the large difference between the two returns, could not be taken in detail.

Mr. W. H. Mallock made an elaborate comparison, using Cd. 6277 and the Reports. The former, he said, refers only to holdings over one acre (500,000), while 800,000 acres "consist of small cultivated plots of less than one acre in extent, their number being something over 1,000,000 (see 41st Report)." This reference merely gives the statement that the *total* numbers of separate properties assessed (including those exempted and abated) are

¹ R. C. on Local Taxation, vol. 1, Q. 3329.

² P. 502, and Qs. 4,964 and 4,994.

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922,282, so that the statement is quite unverified, and there is no reconciliation ("Statistical Monograph," No. 30).

In general it may be said that the separate ratings are grouped for income tax assessment purposes in order to make up the whole of one "take," although extending into several parishes. But several separate "takes" between the same parties would be separately assessed. Land in the occupation of the owner is usually assessed in separate parcels, according to the way it is rated, and one holding extending into several parishes would therefore appear as several assessments. No precise statistical computations can be based on these figures.

RATES OF DUTY IN EARLIER YEARS.

The rates of duty for Sch. B after 1842 were :—

—	Incomes £150 or over.			Incomes £100 and under £150.	
	England.	Scotland and Ireland.	Composition for Tithes.	England.	Scotland and Ireland.
	d.	d.	d.	d.	d.
Up to 1852-3 (inclusive)	3½	2½	2		
1853-4	3½	2½	2	2½	1¾
1854-5	7	5	4	5	3½
1855-6	8	5½	4¾	5¾	3½
1856-7	8	5½	4¾	5¾	3½
1857-8	3½	2½	2	2½	1¾
1858-9	2½	1¾	1¾	2½	1¾
1859-60	4½	3¼	2¾	3¼	2¼
1860-1	5	3½	2¾	3½	2½
1861-2	4½	3	2¾	3	2
1862-3	4½	3	2¾	3	2
1863-4	3½	2½	2		
1864-5	3	2¼	1¾		
1865-6	2	1½	1¾		
1866-7	2	1½	1¾		
1867-8	2½	1¾	1¾		
1868-9	3	2¼	1¾		
1869-70	2½	1¾	1¾		

PARLIAMENTARY PAPERS (CONTAINING ADDITIONAL INFORMATION).

H. C. 491—1852. Appeals by Tenant Farmers, Great Britain, under 14 & 15 Vict. c. 12, s. 3 (1,200 cases: 756 allowed, £3,419 duty relief). Counties detailed.

H. C. 492—1857-8 and (2) of 1859. County Return.

H. C. 130—1860. Rates of duty, 1852 to 1859.

H. C. 300—1860; 1857-8 and 1858-9. United Kingdom. Sch. B Assessments classified in amounts.

H. C. 546—1860. Detailed Return of Assessments by *Parishes*, for Great Britain.

H. C. 571—1860; 454—1870. 1814-15. England and Wales by Counties (estimated from Sch. A Lands and total Sch. B. 1842 to 1869. Great Britain, Sch. B, by Counties.

H. C. 292—1882; 206—1883; 25—1884; 235—1884; 32—1892. County Returns.

H. C. 217—1896. County Returns. Gives tables for 1889 to 1894, and comparison with 1869-70, 1874-5, 1879-80, 1884-5.

H. C. 307—1901. Continuation of foregoing, 1895 to 1899-1900.

H. C. 344—1907. Deer Forests and Sporting Lands, Scotland.

H. C. 414—1912-13. Sch. B—Classification in counties.

OTHER SOURCES OF INFORMATION. (See also under Sch. A.)

1882. R. C. on Agriculture. Giffen's evidence. Qs. 64, 812, etc.

1886. R. C. on Depression of Trade and Industry—Table 4. Profits under Sch. B, 1864-5 to 1883-4 (as distinct from assessments).

1896. R. C. on Agriculture, Appendix A, p. xxxix. Sums charged to duty, allowed by schedule, and by repayment, with net amount received: England and Scotland separately.

1896. R. C. on Agriculture, Appendix XV. County Table—Lands: 1872-3, 1879-80, 1888-9, 1893-4.

CHAPTER III.

INCOME TAX (SCHEDULE A) AND INHABITED HOUSE DUTY.

THE CLASSIFICATION OF BUILDINGS.

THE statistics of these two distinct duties are now combined in such a way as to give a classification of buildings according to value and use or occupation. For the purpose of this work, the House Duty furnishes a sub-class of messuages, and as its values are identical with those for Sch. A, the division of the latter into "Premises Liable to House Duty" and "Premises Exempt from House Duty" is the preliminary step, necessary for clearness, which has been adopted in the Reports for some years.

INHABITED HOUSE DUTY (GREAT BRITAIN ONLY).

This is a "tax on houses which are occupied either wholly or partly as dwelling-houses, and is a charge upon the occupier. It does not extend to houses which are used solely for purposes of trade,"¹ or to houses under £20 in annual value. But it includes premises which are not dwelling-houses in the ordinary sense of the term, *e.g.*, chambers or apartments in the Inns of Court, or in colleges or halls in any of the universities.²

A tax on inhabited houses was first imposed in 1696, and was assessed at various rates until April, 1834, when it was repealed.

From 1808 the rates were—£5 and under £20, 1s. 6d. in the £; £20 and under £40, 2s. 3d. in the £; £40 and upwards, 2s. 10d. in the £.³

¹ 28th Report, p. 86.

² 56th Report, p. 69.

³ 28th Report, p. 86.

When the window tax was repealed in 1851, the present House Duty was imposed, but houses under £20 in annual value were no longer charged. Houses occupied for trade as well as for dwellings were charged at a lower rate, 6*d.*, and the ordinary dwelling-houses at 9*d.* in the £. The two rates afterwards became six, but the categories remained the same, viz., houses used for dwellings and trade, 2*d.*, 4*d.*, and 6*d.*, according to value; and houses used for dwellings only, 3*d.*, 6*d.*, and 9*d.*, according to value.

SCOPE OF TERM "INHABITED HOUSE."

There is no doubt that "inhabited" had a wider meaning under the original Acts than has subsequently been attributed to it; it referred to occupation, and not necessarily to "dwelling, residing and spending the night as well as the day." But subsequent Acts narrowed the extent of that considerably.¹ A building occupied by a working men's club had, since its erection, never been furnished as a dwelling-house, or slept in at night. The ground floor was used as a club, the upper floor being let as an auctioneer's office. It was held not to be assessable.² But the occupation of club premises by a caretaker would make the whole premises liable, as they do not come within the statutory exemption.³ The premises of the Glasgow Philosophical Society and also of the Glasgow Museum were similarly made liable by internal communication with residences of caretakers and curators. Generally speaking, a tenement, structurally self-contained and without internal communication, is treated as a separate house, but the whole subject, involving definition of structural separation and internal communication, in its legal aspects is a very intricate and difficult one.⁴ It is sufficient for statistical purposes to remember that **statistics of private dwelling-houses are wider than ordinary**

¹ Lord President in *Re The Glasgow Coal Exchange Co.*, (1879) 1 T. C. 211.

² *Riley v. Read*, (1879) 1 T. C. 217.

³ *Vide p.* 123.

⁴ For a summary of the deciding cases see Piper's "House Tax Laws," 1903, pp. 16 *et seq.*

appearances would indicate, and statistics of residential shops are narrower.

Houses used wholly for trade are exempted if no person dwells therein. Generally, sleeping accommodation, even though only used occasionally, will render premises liable. But it must not be imagined that "sleeping at night" is a final test of dwelling, for it is only houses *used for trade*, etc., that are exempted upon the test. Other premises in which there is dwelling, in a broad sense (*e.g.*, clubs), are liable.

If the tenant of a building used partly as a house and partly as a shop (or warehouse) **sublets** the shop to a person in trade, but retains the other apartments for his own use as a dwelling-house, he is chargeable at the higher rate (1) for the entire premises if there be internal communication between the shop and apartments, and (2) for the apartments only if the shop is entirely cut off from them.¹

In arriving at the annual value of premises, coach-houses, **stables** and other offices, together with **gardens** and pleasure grounds not exceeding one acre, are valued together with the dwelling-house. The acre so included is not chargeable to income tax, Sch. B. Lodges are included in the assessment on the mansion to which they belong, even though they are situated outside the acre above mentioned.

Traders' Premises adjoining Dwellings.—There are certain exceptions to this rule in cases where the dwelling-house of a trader has attached to it buildings or gardens, etc., used by him in the course of his business; such buildings, etc., are not included in the value. For instance, barns are not to be included in the value of a farmhouse, nor a livery stable keeper's stables in the value of his own dwelling-house. Market gardens, nurseries and greenhouses attached to the residences of their proprietors are not brought into charge, nor are cowsheds, etc., held with a dairyman's premises."²

Tenements, Flats or Lodgings.—In the case of houses let in different storeys, tenements or lodgings, and inhabited by two or more persons or families, the same are to be

¹ 28th Report, p. 86.

² *Ibid.*

chargeable to the duty as if they were inhabited by one family only, but the landlord is deemed the occupier.¹

Blocks of artisans' or labourers' dwellings, however, have now been exempted from the duty when it is found on inspection that the occupiers really belong to the industrial class, and that each tenement or set of rooms is self-contained and structurally severed from the rest, and is under the value of £20. In certain cases, a house specially constructed for the provision of separate dwellings may be the subject of a separate assessment in respect of each dwelling of an annual value not exceeding £60.² Where any dwelling-house is divided into distinct tenements belonging to different owners, each tenement, if it amounts to £20 in value, is liable to duty as a distinct house. Where any such tenement is used solely for trade purposes, the assessment in respect of that particular tenement may be discharged. In the case of any house being one property, but *divided into and let in* different tenements partly for trade and partly for residential purposes, the assessment on the house is confined to the portion residentially occupied. The characteristic flats of Scotland are separately assessed, although structurally they appear to form only parts of houses.

Specific Exemptions :—

- (1) Houses belonging to members of the Royal Family.
- (2) Public offices.
- (3) Hospitals, charity schools, and houses for the relief of poor persons.
- (4) Convalescent homes, lunatic asylums, infirmaries, dispensaries, training institutions, when they are of a strictly charitable character.³
- (5) Houses wholly occupied for trade.
- (6) Houses used for trade and occupied only by a caretaker.
- (7) Houses and structurally separate tenements under £20 in annual value.

¹ 28th Report, p. 87.

² 56th Report, p. 69.

³ 28th Report, p. 87.

COMPARISON WITH SCH. A (MESSUAGES) AND
DIFFERENCE IN SCOPE.

At one time House Duty was re-assessed annually, but it is now assessed at the same time, and almost invariably in the same amount, as the Sch. A income tax. What has been said relative to the effects of the periodical re-assessment under Sch. A applies equally to the House Duty, so far as a consideration of the aggregate amount is concerned.¹ The peculiar effect upon the details of the classification will be considered below.

The House Duty assessments include "farmhouses"² over £20 annual value which are excluded from Sch. A (messuages) and included in Sch. A (lands). They also comprise certain railway refreshment premises which are not charged to Sch. A at all, being part of the railway premises included in the Sch. D assessment. But generally the premises excluded from House Duty are dealt with under income tax, Sch. A, even though no duty is paid, as in classes (1) to (4) of the specific exemptions above.

The House Duty statistics therefore provide a sub-classification of a *part* of the field covered by Sch. A messuages and add thereto those farmhouses and refreshment premises which are not included in Sch. A messuages. The assessments are on gross values, and no allowance for repairs is made, so that a house may be assessed to Sch. A £25 net, and to House Duty £30. But as only gross values are classified in the statistics, no confusion arises.

"Inhabited House Duty is only levied upon houses assessed at over £20 per annum. A house assessed at £20 is of the real rental value of £23 13s. 4d., as one-sixth of the annual value of buildings is allowed to be deducted for the cost of repairs. A note to this effect appears on p. 161 of the Commissioners' Report" (1908).—J. C. L. ZORN, "The Incidence of the Income Tax" (1909), in which the writer turns all the tables into these new gross figures, and in the course of fifty-five pages upon this foundation proves many astonishing things, *e.g.*, the number of income taxpayers is over 2,000,000, and those with incomes under £1,000 under-pay by 46 per cent., those above by 27 and 36 per cent. !

¹ *Vide* p. 31.

² *Vide* p. 115.

OFFICIAL TABLES—SEPARATE CATEGORIES.

PRIVATE DWELLING-HOUSES.

While this class is doubtless, for the most part, well described by its title, it actually includes a very considerable number of premises which are not ordinarily called private dwelling-houses; for all inhabited premises which do not clearly fall within the legal definitions of the classes entitled to assessment at the lower rates fall here, and this class is the "sweeping clause" of the tax. For example:—

(1) A "farmhouse" which is occupied by the owner, or by some person whose living is not confined to farming the land around, despite its outward claim to the title, is not included with "farmhouses," but in this class.

(2) Premises which in a popular sense look like a "shop" may come within this class if nothing is exposed for sale on the ground floor or basement, and in the front. So also may similar premises where the person occupying the shop is not also the person "occupying" the house, and there are numerous cases where the shop premises are divided off from the upper portion, and the latter is assessed at the higher rate as a private house.

(3) Some private houses used partly for letting lodgings, etc., are not included in lodging-houses because the necessary claim is not made with a declaration of the facts.¹

Then professional premises of all kinds, doctors', solicitors', etc., are classed as private dwelling-houses for their whole value, to include the part occupied for professional purposes. Particularly to be noted are schools, which account for not a few of the large assessments. So, too, large premises which do not come clearly within the exemptions for hospitals, etc. [see exemptions (3) and (4)] rank as private dwelling-houses.

RESIDENTIAL SHOPS.

Definition.—This is an official, though not a legal, title. It conveys fairly well what is intended. The Act prescribes: "A dwelling-house (a) occupied by any person in trade who (b) exposes to sale and sells any goods, wares,

¹ *Vide* p. 116.

or merchandise in any shop or warehouse, (c) being part of the same dwelling-house, and in the front and on the ground or basement storey thereof."

The three conditions of occupation, sale, and position must all be met, otherwise the higher rate is chargeable and the house comes under the "private dwellings" class (*q.v.*).

Analysis.—Some writers have fallen into the error of forgetting that these are only the shop premises of £20 *in value and upwards*, and therefore that there are many shops classed under "Houses" exempt from House Duty.

Vide p. 118 for examples.

"Dwellings over shops, such as are occupied by minor tradesmen, are not treated as dwellings, but are numbered amongst business premises. The actual number of dwellings, therefore, and specially dwellings of small rental value, will *exceed* the numbers given in the official returns."—W. H. MALLOCK, *Nineteenth Century*, 1910, p. 477. This is not the case.

For "lock-up" shops, see p. 123.

There are therefore many premises which are shops in the ordinary sense of the word not included in these tables.

It will be noticed, on inspection of the tables, that the numbers and values are practically stationary during the past ten years, or exhibit, perhaps, a declining tendency. This is due of course to the constant increase of "lock-up" premises, and the habit of "living away from the shop," which takes away from this class and increases the "Premises not used as dwellings" class, that in the same period has grown enormously. It is not uncommon in the case of the large multiple-shop companies for the premises above, if used residentially, to be structurally divided from the shop and let off for a comparatively small rent, so that really imposing shop premises may not figure in the *House Duty* assessments at all.

The effect of re-assessment on these assessments should be noticed. By inspection for 1898-9, 1903-4, and 1910-11, it will be seen that a very considerable but transient increase takes place so far as England is concerned. There is a considerable number temporarily "borrowed" from the "lock-up" class, *i.e.*, re-assessed, and on due claim and

inspection allowed as "lock-ups" by "schedule" and taken out of assessment in the subsequent years. The other characteristic features of the re-assessment years are of course exhibited also.¹

There is nothing to support the assumption made by Mr. Mallock that the number of "employing owners" may be gauged from the number of shops ("Nation as a Business Firm," p. 117).

HOTELS, PUBLIC-HOUSES, COFFEE-HOUSES, ETC.

Definition.—A dwelling-house occupied by any person duly licensed to sell therein by retail beer, ale, wine or other liquors, although the room or rooms thereof in which any such liquors shall be exposed to sale, sold, drunk or consumed are not such shop or warehouse as referred to under (b) (p. 112). *Or* a dwelling-house occupied by any person who carries on therein the business of an hotel-keeper or an innkeeper or coffee-house keeper although not licensed to sell therein by retail beer, ale, wine, or other liquors.²

The Act of 1851 gave a narrower definition: "occupied by any person who shall be duly licensed by the laws in force to sell therein by retail beer, ale, wine, or other liquors, although the room or rooms thereof," etc.; and the Act of 1871 (34 & 35 Vict. c. 103), s. 31, brought in the hotel-keeper and coffee-house keeper.

Analysis.—No distinction is made in the statistics between the various classes included in the heading. Premises under £20 in value, although licensed, appear under "Houses under £20," and there are of course many small beerhouses under this value. Recent statistics exhibit very clearly the falling off due to extinction of licences under the Licensing Act, 1904, but in the last two or three years, since 1908-9, the decline is not wholly due to this cause. Values, for House Duty purposes, have followed a decline in tied rentals and have also been affected by the increased licence duties. Although there were 1,352 fewer in 1910-11 than in 1909-10, all the classes above £41 felt the effect of the re-assessment, and showed *increased* numbers, the decreases:

¹ *Vide* p. 31.

² 56th Report.

being 2,878 in the £20 to £41 class, but for 1911-12 the reductions in values put back all the classes below 1910 (and all the higher ones below 1909-10 figures) except the "£20 and under £41" class, which received from the classes above and showed an increase. The total decrease of 600 in 1911-12 is in part real and in part apparent, some going into the "under £20" and exempt class. It should not be forgotten that the majority of the premises in this class are assessed on amounts in excess of the "tied" rents paid, which are no criterion of the annual value.¹

The word "hotel" is not free from ambiguity, and, speaking generally, the private hotel, which is only a superior boarding or apartment house (unlicensed), may not be included in this class.² The status of the proprietor is sometimes a factor.³

FARMHOUSES.

Definition.—A dwelling-house being a farmhouse occupied by a tenant or farm servant and *bonâ fide* used for the purpose of husbandry only.

Analysis.—Here again appearances are deceptive. If the house is occupied by its owner it is liable as a private house, while if the occupier carries on some other business it may also fail to secure the lower rate.⁴ According, then, to the character of the occupier rather than the position or external appearance of the house will the classification be settled.

If a house comes within this class for House Duty it falls under "Lands," and not under "Messuages," for Sch. A, and is included in the Sch. B value also, while one-eighth, and not one-sixth, is the proper "repairs" allowance. In the assessment are included such offices as usually belong to a dwelling, and farm buildings are excluded. It may be

¹ With regard to the methods of assessment, *vide* "Taxation of the Liquor Trade," Rowntree and Sherwell (second edition), p. 127.

² But a hydropathic establishment in which some visitors were patients receiving treatment under the advice of a resident physician, and in which all visitors were subject to the rules of the house, was admitted to this class (*Strathearn Hydropathic Establishment Company*, 1 T. C. 375).

³ In a case in which the statutory "occupier" was not the person licensed, the house was not chargeable as an hotel (*McDougall v. Campbell*, (1899) 37 Sc. L. R. 181).

⁴ *Vide* 56th Report, p. 80.

remarked that there is no precise criterion for assessment, the rent of a farm rarely distinguishing the separate value of the house, and the local rating valuation lists seldom separate it, but include it with the farm buildings, and often with farm cottages. Speaking generally, therefore, assessment is rather lenient. The "value to let by the year" in a remote and not easily accessible situation may be very different from the apparent accommodation value. Nearly 98 per cent. of the whole number of farmhouses assessed to House Duty are under £40 annual value.

LODGING-HOUSES.

Definition.—A dwelling-house occupied by a person for the main purpose of letting furnished lodgings therein as a means of livelihood.

Analysis.—The statute imposes the obligation upon the occupier to claim the relief and to maintain the claim annually. For many of the smaller houses devoted to letting purposes the difference in duty is so small that there is no doubt many occupiers do not trouble to claim, or do not know of their rights, and therefore the statistics do not show the true number of lodging-houses. Those not classed as such are included in private houses. The class dates from 1890-1 only, prior to which all of these houses belonged to the private house class.

In a statement of the numbers of various classes of earners other than manual labourers and productive or manufacturing employers, Mr. Mallock includes lodging-house keepers, 207,000, with a note "These figures are no more than estimates, except in the case of lodging-house keepers, the number of which is taken from the Report of the Commissioners of Inland Revenue, and obviously relates to a portion of this group only" ("The Nation as a Business Firm," p. 110).

The number of lodging-houses (50th Report, p. 185) over £20 in Great Britain was 25,934, and it does not appear from whence the figure of 207,000 is taken. Apparently, with an addition for Ireland, it was intended for 27,000, but on the other hand Mr. Mallock's aggregate for the group accounts for the larger number. On p. 113, however, the number is given as 27,000, so that this aggregation is wrong; on p. 112 the average income of the lodging-house keepers is put at £180. Mr. Mallock's figure

for "shopkeepers living over their own shops" is 310,000, and the residential shops in Great Britain assessed to House Duty were 307,000; his hotel keepers and public-house keepers number 90,000, and the House Duty figures (to include coffee-houses, etc.) were 95,714.

"SEPARATE DWELLINGS" (54 & 55 Vict. c. 25, s. 4, and 3 Edw. 7, c. 46, s. 11) (or "ARTISANS' DWELLINGS" in Reports prior to the 48th).

Definition.—"Where a house, so far as it is used as a dwelling-house, is used for the sole purpose of providing separate dwellings," any dwelling which is under £20 in annual value is excluded from the assessment upon the whole, while dwellings worth from £20 to £40 per annum are chargeable at 3*d.* in the £, those from £41 to £60 at 6*d.* in the £. This renders unnecessary the charge *in cumulo* of the whole value at 9*d.*, such as might be otherwise necessary if structural separation of the dwellings was not complete.

Analysis.—It will be observed that there are more of these cases in Scotland. The flat system had already been fully recognised by separate assessment of the dwellings as "houses," although technically this might not have strictly accorded with the House Duty law.

The only condition laid down is that as regards the dwellings up to £40 a certificate must be produced from the medical officer of health for the district that the house is "so constructed as to afford suitable accommodation for each of the families or persons inhabiting it, and that due provision is made for their sanitary requirements."

PREMISES EXEMPT FROM INHABITED HOUSE DUTY.

(1) SEPARATE DWELLINGS (54 & 55 Vict. c. 25, s. 4, and 3 Edw. 7, c. 46, s. 11).—An explanation of this class is given above. These represent the dwellings under £20 in value which form part of large tenement premises.

(2) HOUSES OF ANNUAL VALUE: (a) UNDER £10; (b) £10 AND UNDER £15; (c) £15 AND UNDER £20.¹—These include

¹ *Vide* p. 132 for a consideration of this class over a period of years. The statistics in the present form have been available since 1874, and for prior years recourse may be had to Electoral Returns—"Of the total number in England and Wales, more than half are rated at less than £6 per annum" (W. Newmarch, S. J., 1857, p. 199).

not only the private dwelling-houses *ejusdem generis* with those over £20 so classified, but also residential shops under £20, hotels, beerhouses, etc., under £20, lodging-houses under £20, but *not* farmhouses (under £20) let to tenants, for these are included in "lands" under Sch. A, their number and value not being ascertainable separately, in these statistics. Farmhouses (in the ordinary sense) occupied by their owners are, however, included in this class, as they are not farmhouses in the technical sense. The proportion of this class which is not strictly private dwelling-houses is not known.¹

Vide quotation from Sir Thomas Whittaker, p. 131.

Zorn ("Incidence of the Income Tax") ignores these houses (assessed with lands) altogether.

"The highest total of values is reached . . . by the exempted dwelling-houses, of value £10 to £15; their total is £21,300,000. *Shops are not included.*"—J. BONAR, "The Inhabited House Duty," *Economic Review*, 1907.

W. H. Mallock gives the total number of *dwelling-houses* in Great Britain in 1898 as 6,300,000 and in 1908 as 7,500,000 instead of 6,808,000 and 8,089,000, because he adds together the dwellings exempt from House Duty (which include small shops with dwellings above) to *private* dwelling-houses, omitting shops, etc., charged to House Duty. The latter have all residential accommo-

¹ In 1852 the number of houses £10 to £20 and values were:—

—	Number.	Value : Shops, etc.	Value : Dwelling- houses.
England and Wales	359,740	£ 1,749,400	£ 3,337,400
Scotland . . .	36,930	127,400	343,000
Great Britain . .	396,670	1,876,800	3,680,400
		£5,557,200	

Average value = £14.

It appears, therefore, that "shop" premises formed one-third of the whole number, but this proportion has probably diminished greatly since that date. (These figures have been computed from H. C. 244—1852.)

dation, or they would not pay the duty ("Phantom Millions," *Nineteenth Century*, 1909, p. 761).

The fact that practically all farmhouses are assessed to income tax as land, and are not separately distinguished in the statistics (except so far as they are also assessable to Inhabited House Duty), considerably detracts from the value of these figures as a total of all the buildings and dwellings throughout the country. An attempt may be made to estimate the number of houses let with farm lands and under £20 in value.

(1) The total number of houses in the Census Reports may be compared with this assessment total and the balance assigned to such properties. This is a rather risky method, because the balance is small in relation to the aggregates, and differences of classification and definition would be important in relation to that balance.¹ But it indicates rather more than 205,000 for England and Wales. A proportionate addition for Scotland would give 230,000 for Great Britain.

(2) Up to 1910 the House Duty classes were more finely graded (£20 to £25, etc.). From these figures the distribution tendency may be ascertained² and the result continued logarithmically downwards, giving 54,500 in the class £15 to £20. It would be dangerous to carry the index unchanged any lower, but if the same proportion for the classes £15 to £20, £10 to £15, and under £10 exists as for other houses (not let with farms), the total number would then be 348,000.

(3) Taking the return of agricultural holdings for Great Britain, we get a distribution as follows :—

	Thousands.
Over 300 acres	17·2
50 to 300 „	151·7
5 to 50 „	234·6
1 to 5 „	110·0
Total	513·5

At the top of the scale are a good many holdings worked

¹ *Vide* p. 126.

² Above £30 the *Pareto* index is 4·03, but below £30 it is uniformly 3·4. *Vide* p. 464.

with houses *not* assessed as farmhouses over £20, but for various reasons as private houses.¹ Both classes over £20 account for about 36,000. A part of the smallest class of holding would fall wholly (both land and house) into the House Duty assessments, but the greater part would be small farm holdings worked by tenants of cottages rented independently. We are left with a maximum of 377,000 holdings for which farmhouses may be assigned, and in many of these cases (holdings by graziers, butchers, cattle dealers, etc.) no houses are necessary. The indication is that there are a little over 300,000 farmhouses under £20 assessed with lands and omitted from the statistics of houses.² The census of occupations effectively prevents a much higher estimate.

HOSPITALS, SCHOOLS, ROYAL AND DIPLOMATIC RESIDENCES, ETC.

(1) **Houses belonging to His Majesty or any of the Royal Family and Houses occupied by Foreign Ambassadors.**—The exempting statute reads: “Any house belonging to His Majesty, or any of the Royal Family, and every public office for which the duties have been paid by His Majesty, or out of the public revenue” (House Tax Act, 1808). Figures were given separately prior to 1900. The 1899 statistics were:—

	Numbers.	Amounts—£.
Metropolis	62	20,803
Rest of England	26	2,292
Scotland	9	2,604
Total	97	25,699

This class does not include properties which belong to the Crown and are actually in the occupation of the Crown—Government offices and official residences of Royalty. But it includes all non-official Royal residences which, though exempt from House Duty, may be liable to income tax.

(2) **Hospitals.**—The House Duty exempting statute reads:—“Any hospital, charity school, or house provided for the reception or relief of poor persons” (House Tax Act, 1808). The income tax exemption is:—“On any hospital,

¹ *Vide* p. 115.

² In 1896 G. H. Blunden estimated the *value* omitted at £3,500,000, which at an average of £10 would give 350,000 (*S. J.*, 1896).

public school, or almshouse, in respect of the public buildings, offices and premises belonging to such hospital, public school or almshouse and not occupied by any individual officer or master thereof " liable to income tax, " or by any person paying rent for the same."

For all *practical* purposes these exemptions may be regarded as covering the same ground, but the statistics for income tax deductions under this head are wider in scope, because they cover also the exempted *rents* of ordinary properties, where such rents are applied to charitable purposes. Thus, the *gross* value of premises *used* for hospitals, etc., is £4,800,000, but the *net* value of property both used for, and *applied* to, charitable purposes is £8,400,000.¹

Separate figures for the different descriptions of premises are not available. They have always been classed together, and since 1900 the class preceding (houses occupied by Royalty, etc.) has also been included.

The class includes—

(1) **Lunatic asylums**, generally, provided they are not wholly supported by the receipts of patients and that there is a substantial element of endowment.² A separate house provided for the medical superintendent, if within the hospital grounds, is exempt.³

(2) **Schools, charity**, as distinct from public schools. — The Charterhouse, which was originally a " hospital for the poor and a free school," is now, for the larger part, carried on without the aid of the charitable foundation, and exemption from House Duty is not granted.⁴ But the masters are occupiers of their respective houses and are assessable to House Duty for them.⁵ The school buildings do not, taken by themselves, form an inhabited house.⁶ (All the school buildings belonging to and occupied with a house in an ordinary school are assessable therewith.⁷) Westminster School, with £3,325 annual endowment out of £16,000 total

¹ *Vide* p. 65. The figures given for 1899–1900 are the sums allowed in the assessment only.

² *Vide* cases of *Needham v. Bowers*; *Cawse v. Nottingham Lunatic Hospital*; *Musgrave v. Dundee Royal Lunatic Asylum* (2 & 3 T. C.).

³ *Jepson v. Gribble*, 1 T. C. 78, and *Wilson v. Fasson*, 1 T. C. 526.

⁴ *Charterhouse School v. Lamarque*, 2 T. C. 611.

⁵ *Charterhouse School v. Gayler*, 3 T. C. 435.

⁶ *Clifton College v. Tompson*, 3 T. C. 430.

⁷ *Browne v. Furtado*, 4 T. C. 537.

income, was held not to be exempt as a charity school.¹ Bradford Grammar School and Holloway College failed similarly in their claim. For income tax exemption as a public school the City of London School succeeded, but the Edinburgh Free Church College failed.

Generally speaking, the statistical significance of this class is in what is excluded rather than what is included, for the public schools help to swell the number of "dwelling-houses" of large annual value.

(3) **Workhouses and Almshouses.**—"Poor persons" is a relative term, so that "The Mary Clark Home" (in which the ladies in reduced circumstances all have from £25 to £55 a year independent means) obtained exemption.²

PREMISES NOT USED AS DWELLINGS—*i.e.*, HOUSES, ETC.,
USED SOLELY FOR TRADE, ETC.

This class was formerly given under three heads, and it comprises three distinct sub-classes (*vide* 44th Report, p. 90).

(1) **Messuages and Tenements not used as Dwellings.**—In 1899 this group numbered 520,058 out of a total for the whole class of 544,428, and the value was £33,083,199 out of £37,398,951. No separate figures have since been given annually. It comprises industrial premises of all descriptions, on which residence is *primâ facie* unlikely or impossible. The following is an approximate classification of all classes (1912):—

Premises containing fixed machinery	Textile Mills . . .	£ 3,850,000
	Engineering Works . .	3,320,000
	Breweries and Distilleries	1,200,000
	Other buildings used for manufacture . . .	5,550,000
Chemical Works, Tanneries, and other premises containing specialised fixed plant		3,630,000
Warehouses and Stores, used for storage, blending, etc. . . .		6,730,300
Shops, etc., locked up at night . . .		19,460,000
Other premises		11,426,278

¹ 6 T. C. 166.

² 5 T. C. 48.

INCOME TAX AND INHABITED HOUSE DUTY. 123

(2) **Parts of Houses used solely for Trade, etc., Purposes**
(41 & 42 Vict. c. 15, s. 13 (1)) (1899 figures) :—

	Numbers.	Amounts—£.
Metropolis	1,027	806,183
Rest of England	971	101,436
Scotland	—	—
Total	1,998	907,619

The statutory exemption is : “ Where any house, being one property, shall be divided into, and let in, different tenements, and any of such tenements are occupied solely for the purposes of any trade or business, or of any profession or calling by which the occupier seeks a livelihood or profit . . . ” relief shall be given “ so as to confine the same to the duty on the value according to which the house should have been assessed, if it had been a house comprising only the tenements other than such as are occupied as aforesaid.” It is the value of the tenements, etc., *excluded* from the House Duty charge under this section which is included in this statistical class.

The case law interpreting the words “ divided into and let in different tenements ” is very complex and extensive, and it is quite unnecessary for statistical purposes to attempt closer definition.

(3) **Houses used solely for Trade, etc., Purposes** (41 & 42 Vict. c. 15, s. 13 (2)) (1899 figures) :—

	Numbers.	Amounts—£.
Metropolis	5,545	2,249,716
Rest of England	16,607	1,101,386
Scotland	220	57,111
Total	22,372	3,408,213

The statutory exemption reads : “ Every house or tenement which is occupied solely for the purposes of any trade or business, or of any profession or calling by which the occupier seeks a livelihood or profit, shall be exempted from the duties, . . . and this exemption shall take effect

although a servant or other person may dwell in such house or tenement for the protection thereof." Shortly after it became necessary to define "servant" "to mean and include only a menial or domestic servant employed by the occupier, and the expression 'other person' shall be deemed to mean any person of a similar grade or description not otherwise employed by the occupier, who shall be engaged by him to dwell in the house or tenement solely for the protection thereof."¹ The following points from decided cases will indicate the operation of this exemption:—

"Trade or Business, Profession or Calling": Exemption allowed.—Glasgow Coal Exchange, membership subscriptions payable—used for exchange purposes by coal masters, merchants and brokers, and occasionally let for balls, etc.²

Premises occupied by *mutual* insurance society (Scottish Widows' Fund and Life Assurance Society).³

Exemption not allowed.—An hotel, where the hotel-keeper and his family resided elsewhere (*Young v. Douglas* ⁴).

Two farmhouses, one occupied by a farm servant, and the other by the steward (*In re Ainslie* ⁵).

Premises occupied by Merchant Company of Edinburgh, the secretary *also* carrying on his business as law agent.⁶

Premises occupied by London library—attendant and wife in residence for protection of premises.⁷

Premises occupied by British Institute of Preventive Medicine.⁸

"Caretaker"—"Servant or other Person": Exemption not allowed.—Clerk (with salary of £150 per annum), with wife, children, and servant occupying eight rooms and two attics.⁹

Bank clerk (salary £100), with wife, daughter and son, both of age. The salary included services in closing offices, cleaning and firing, and attendance at door.¹⁰

Premises in charge of female caretaker, a condition of her employment being that her son, aged 22, should sleep on the premises for increased safety. He was a clerk elsewhere; an adult daughter and servant were also resident.¹¹

¹ 44 & 45 Vict. c. 12, s. 24.

² 1 T. C. 211.

³ 4 T. C. 369.

⁴ 1 T. C. 227.

⁵ 1 T. C. 342.

⁶ 2 T. C. 533.

⁷ 2 T. C. 594.

⁸ 3 T. C. 376.

⁹ 1 T. C. 260.

¹⁰ 47 L. T. 252.

¹¹ 2 T. C. 86.

Premises comprising eighteen rooms and concert-hall. Caretaker and wife occupied five rooms, the others being let for meetings, etc. He had other employment as librarian to a library occupying two rooms.¹

Premises occupied by life assurance company ; two messengers also employed as caretakers.²

Other cases decided that a salesman, an attendant, and a bank manager respectively could not come within the description " caretaker." But generally it may be said that if there are no adult children in independent employment resident with the caretaker a fairly liberal interpretation is given in practice.

Writers upon problems of distribution of income who have been concerned with occupied houses have always ignored the class " Premises not used as Dwellings," but it is clear that the sub-class (3) is not a wholly negligible factor, and that an estimate of the number of families resident in such premises in the " caretaker " capacity should be made.

HOUSES IN THE CENSUS COMPARED WITH HOUSES IN THE TAX STATISTICS.

The 1911 census gives an elaborate classification of buildings which should be theoretically reconcilable with the assessments. But the difficulties of definition were considerable, and differences in interpretation by the many investigators must have been very numerous. The assessment classification and definition are, on the other hand, brought to the critical test of taxation, and have been rendered more uniform by many years of administrative practice and a special code of law.

The first difficulty is that of *time*. The census is taken for a particular day, and the assessments represent, at the nearest, the conditions of a whole year. But roughly it may be said that the year 1910-11 must be taken to correspond.

¹ 3 T. L. R. 191.

² 3 T. C. 268.

The census for England and Wales gives (in thousands) :—

(1) Buildings used as dwellings :				
Inhabited	.	.	.	7,141·8
Uninhabited	.	.	.	408·7
				7,550·5
(2) Buildings not used as dwellings (ex-				
cluding churches, etc.)	.	.	.	355·0
Total	.	.	.	7,905·5
The tax total is : (1)				
				7,244·9
(2)				
				525·7
Total	.	.	.	7,770·6

Now it is *primâ facie* probable that the enumeration of "buildings" not inhabited, made for a census not primarily directed thereto, and with inadequate time and powers for the purpose, would be short of the true number, as compared with a long-established assessment based on *parish* rating and local knowledge. The report shows that considerable difficulties were encountered, and it appears to be beyond doubt that the enumeration is quite incomplete. The test of the division is very similar to that adopted for the tax classification, viz., the existence of sleeping accommodation, but cases of caretakers on business premises come within (1) of the census and within (2) of the assessments. This only makes the disparity between the 355,000 and 525,700 the greater. It is probable, moreover, that premises counted as one dwelling for the census have been *divided* into dwelling and "lock-up" shop to a much greater extent in the assessments, and this would account partly for the difference. In the opposite direction is the omission from the assessments of all buildings forming part of gasworks, waterworks, railways, etc.,¹ which should presumably be in the census. On the whole the conclusion appears irresistible that a great number of rated premises were omitted from the census enumeration of "buildings not used as

¹ Concerns No. III., Sch. A, assessed under Sch. D. *Vide* p. 222.

dwellings," the number shown being about two-thirds of the true number. Proceeding to compare only the "inhabited houses," we may first deduct, say, 10,000 "caretaker" cases from the census figures. The "flats" class presents great difficulties, and the census report shows that there was much lack of uniformity in the methods adopted: it is highly improbable that the method of counting and the definition were quite in accordance with the purely technical tax distinctions, and no kind of exact comparison is possible, so that perhaps the least error will be introduced into the aggregate comparisons if what both methods describe as "flats" or "separate dwellings" are eliminated. The comparison then stands (in thousands):—

Census.	(1)	Properties assessed to House Duty.	Census Houses not assessed to House Duty. (Difference between cols. 1 and 2.)	Houses under £20 assessed to Income Tax, excluding separate dwellings and trade premises.
	(1)	(2)	(3)	(4)
Ordinary dwelling-houses	6,869·5			
Offices, warehouses, workshops, factories and other premises . . .	71·0			
	6,940·5	1,439·6	5,500·9	5,349·1
Hotels, inns, and public-houses	88·2	88·5	—·3*	} 135·7†
Shops	444·7	308·7	136·0	
Total	7,473·4	1,836·8	5,636·6	5,484·8
				Difference unaccounted for, 151·8

* The tax description is broader, and includes coffee-houses and temperance hotels, so that the two classes are not strictly comparable (see Census Report, VI., 5).

† This represents the shops, etc., under £20 in value. In 1850 these were about 120,000 in number (*vide* p. 118).

The point now for consideration is whether the difference 151·8 would be increased if "flats" were dealt with on

identical lines. In view of the fact that we have taken from the census figures what is *equivalent* to 253·4 *separate* flats, and from the tax figures what is equivalent to only 94·7 separate dwellings, the difference 158·7 represents separate flats which are not so classified for House Duty, and which probably appear as at least (one-third) 53,000 houses therein. These increase the unassigned balance to 204·8 +. *The difference is of course mainly due to the fact that all farmhouses under £20 are assessed as land for tax purposes*, and this is perhaps one measure of the number so assessed.¹

IRELAND.

The fact that the House Duty does not extend to Ireland has always been a pitfall for statisticians, and in making comparisons with figures which relate to the United Kingdom it is often forgotten. When remembered, a rough estimate is usually made, for no information is available as to the number and value of houses above £20 at the present time. But in 1864 there were 33,763 houses rated over £20 by the unions in Ireland²: these valuations were of course very low, and it may be said that, compared with England, this was the number above £25 in value.

In discussions upon the distribution of incomes, the following estimates have been made:—

Zorn: 100,000, all values over £20 ("Incidence of the Income Tax").

Morgan Browne: 100,000, all values over £20 (*New Liberal Review*, April, 1902).

Mallock: 100,000, all values over £20; 350,000, under £10; 150,000, £10 to £15; 150,000, £15 to £30; 40,000, £30 to £50; 13,000, £50 to £60 (*Nineteenth Century*, March, 1910). 830,000, under £20; 15,000, £20 to £60; 15,000 over £60 ("The Nation as a Business Firm," p. 71).

Money: 9,000, over £50 (S. C. on Income Tax, 1906).

¹ *Vide* p. 119.

² H. C. 207—1864.

COMPARISONS BETWEEN DIFFERENT YEARS.

(I) SHIFTING BETWEEN VALUES.

Upon the question of the aggregate valuation the remarks that have been made about Sch. A (messuages) as to the effect of re-assessment fairly apply.¹ But the question of the total numbers and values of houses *liable to House Duty* is affected in a second way, owing to the £20 exemption limit, quite distinct from the effect on *all* houses from highest to lowest values. For in the ordinary years many *existing* houses are dropping below £20 and disappearing from the statistics of liable houses, and none are coming up from below, but in the revaluation year all the arrears of increasing rents are brought in, and many cases that were standing under £20 come above £20. The classes tend to press upwards throughout in the re-assessment, and, although masked to some extent by the actual *new* houses, there is a downward drop in the ensuing years that is very clearly visible in the tables. In a reciprocal manner the houses under £20 tend to be fewer in the re-assessment year and more numerous in subsequent years.

"In 1897 144,000 new dwellings were built . . . in 1898 the number had sunk to 114,000 . . . in 1889 (probably 1899 is meant) it was 147,000, or 17,000 above the average."—MALLOCK, "Phantom Millions," *Nineteenth Century*, 1909, p. 761).

It is not possible to see how these figures have been obtained, but they clearly ignore the effect of the quinquennial ~~assessment~~ in 1898. Mr. Mallock uses the houses over £20 as a divisor (the gross income reviewed being the dividend) to obtain an "average assessed income" for use as an annual index number with which to compare wages. It is clearly unsuited for the purpose. The quotient drops from 695 in 1902 to 660 in 1903, because of the effect of the re-assessment on the divisor ("Statistical Monograph," p. 26).

The care which is necessary in drawing inferences from the separate classes of these tables is well illustrated by the series of questions by Mr. Royds, M.P., in the House of Commons in 1912 and 1913, and the ministerial replies.² Mr. Royds designed to

¹ *Vide* p. 31.

² *Vide* Hansard : Vol. 45, cols. 1483 and 1507 ; Vol. 46, cols. 349, 1180, 2063 ; Vol. 47, cols. 411, 1322, 2194 ; Vol. 48, cols. 1485, 1490 ; Vol. 49, col. 1628 ; Vol. 52, col. 339 ; Vol. 55, col. 1233.

show that the official tables indicated a great slackening in the building of cottages and small houses in 1910 and 1911, and that the whole housing question had also been prejudiced by the Budget taxation of 1909. The small increase in houses under £20 in 1910-11 compared with other years was pointed out and explained to be very largely due to the fact that 1910-11 was a year of new valuation—the first since 1903-4. “Somewhat similar falls have invariably followed the periodical revision of the assessments.” The diminished *value* in 1910-11 (notwithstanding the larger number) was then referred to; and the reply stated that the average had fallen from £9 19s. 4½*d.* to £9 18s. 2¾*d.* “This small decrease of 1s. 2*d.* per hereditament might be due to a slight corresponding diminution in the average rent paid by the working-class occupiers of this class of property; but as 1910-11 was a year of new assessment it is probably attributable to other causes, and especially to small differences in estimating yearly rental values from the weekly rents at which a large proportion of this class of property is let.” Mr. Royds then got to the root of the matter by taking the total number of all classes together and calling for information as to 1893-4 re-assessment, when it appeared that the “under £20 class” showed a decrease of 6,536 and the “over £20” class an increase of 45,540. He summarised the matter in a motion for adjournment on 14th February, 1913,¹ in which he dealt with building generally; and Mr. Masterman in his reply showed that revaluation had the effect of checking the automatic increase in the “under £20” class, but did not refute Mr. Royds on the subject of all houses taken together. How easily the matter can be misunderstood is shown by the following comment:—

“He made great play with the ‘year of re-assessment,’ and declared once more that after every such period ‘the number of houses under £20 valuation decreases automatically.’ We confess that both of these statements puzzle us considerably. In the first place, what is a ‘year of re-assessment’? If the expression has any meaning at all it is that the whole of the country is re-assessed simultaneously. That is certainly not the fact; every year is, more or less, a ‘year of re-assessment.’ Moreover, in many unions appeals against assessments are held at least once, and often twice, a year, so that valuations are in a constant state of flux. Then, is it a fact that the number of houses under £20 valuation ‘decreases automatically’ after every revaluation? In a healthy and normal period it would seem reasonable to suppose that the value of the new buildings would

¹ Hansard, Vol. 48, cols. 1485, etc.

at least make up for the reduced value of the old ones. That would hardly be so when the new houses were small in number ; but when they reach, or exceed, the average, there certainly ought to be little, if any, fall in the number of buildings assessed up to a given figure, the more especially when the figure is as low as £20 " (*Estates Gazette*, 22nd February, 1913).

Sir Thomas Whittaker quotes the private dwelling-houses table 1890-1 against 1910-11, and gives the percentage increase in each case.

Private Dwelling-houses.	1890-91.	1910-11.	Increase.
Rental.	No.	No.	Per cent.
Under £10	3,271,261	3,240,221	—·96
£10-15	1,088,329	2,103,820	93·4
£15-20	586,511	960,395	63·5
£20-40	572,506	1,087,750	89·9
£40-60	150,093	232,432	54·9
£60-80	46,362	64,827	39·8
£80	109,208	127,679	16·9
Total .	5,824,270	7,817,124	34·2

"These figures indicate a great improvement in housing ; . . . the most striking and interesting facts revealed by these figures are—(1) *that there was no increase, but really a small actual decrease, . . . in the number of the smallest and poorest houses ;* and (2) *that the smallest increase in actual numbers . . . was in the number of houses the annual value of which was more than £80 a year. . . . The great increase was in houses of from £10 to £40 a year rental, exclusive of rates and taxes. Clearly the working people are better housed, are able to pay better rents, and now live in much larger numbers in £10 to £15 houses, where they used to live in £6 to £10 houses* " (" *Ownership and Taxation of Land*," pp. 81-2).

Now the inferences italicised in this quotation are probably correct, at any rate in part. But they do not *necessarily follow* from the statistics. The figures are quite compatible with the following conditions : an increase of nearly two million houses, but all of the worst and smallest type, and a great and general increase in rents of all kinds of property—almost the reverse of the above conclusions !

The first three classes (up to £20) do not strictly follow the heading, for they are not *ejusdem generis* with the remainder. They are officially described as "houses," and include residential shops, beerhouses, etc., that would be charged at the lower rate if over £20 in value (*vide* p. 118).

Giffen, "Some General Uses of Statistical Knowledge" (S. J., Jubilee volume, 1889, p. 113) quotes:—

	1833.	1880.
Houses above £20 annual value	215,000	713,000
" £15 and under £20	228,000	{ 425,000
" £10 and under £15		
Houses under £10	2,252,000 ¹	3,091,000

Giffen shows that the lowest class has increased only 40 per cent. against the general increase of 85 and 90 per cent. He deals with the argument that increase of house rent would give these figures and yet not be a sign of better accommodation. "The argument is self-contradictory. The wages of labour being ultimately the main element in the cost of producing houses, becomes a proof that the wages of the builders of houses have increased—probably greatly, . . ." because of labour-saving machinery. "That much higher rents are paid is a proof of the rise in the standard of living."

Giffen's contention surely goes beyond the evidence, for the rise could take place against a stationary wage, by mere pressure of population, and it might be a factor in depressing the standard of living, which can hardly be tested by the fact of a higher payment for the same thing!

In discussing the progress of the working classes (S. J., 1883) he used the 1834 and 1881 returns, and looked entirely at the £10 to £20 class, ignoring the class below except as a modification, and considered that the working classes had obtained a better article. The same criticism applies, viz., that the under £20 houses may have gone above £20, the £10 to £20 class received the lower class houses at higher rents, and all the new houses may have come in at the lowest class.

(2) SHIFTING BETWEEN CLASSES.

Re-assessment Years.—An additional feature of importance is that the "private dwelling-house" class is swollen not only actually from the "under £20 classes," but also from the various exempt classes, and the various lower rate

¹ This figure is arrived at by deducting the houses subject to duty from the total number of inhabited houses.

classes, to an extent partly real, partly fictitious. The actual title to exemption or lower rate comes up prominently for review, and it may be found to be invalid permanently, or, the onus of proof being upon the taxpayer, it may stand charged at the higher rate when the assessment books are made up, but may be *subsequently* reduced by schedule ¹ on satisfactory evidence. Thus, title to be ranked as a lodging-house, as a farmhouse, or as a shop, or to be exempt as a charity school, or as a "lock-up," may be called into question. The private dwelling-houses are therefore abnormally increased by the re-assessment, and lock-ups, shops, etc., will be found to show a relative falling off by the transfer.

Private Dwelling-houses prior to 1890.—When any comparisons before and after 1890 are made, it must be remembered that this class formerly included the whole of the present **lodging-house class**.

COMPARISONS BETWEEN DIFFERENT PLACES.

The remarks made under Sch. A ² about Scotland apply equally here. The values are relatively higher than in England owing to the inclusion of rates.

Mr. C. P. Sanger, writing on the incidence of rates, omits this point, but as he uses the assessment only as a ratio it is not very material ("Incidence of Taxation in United Kingdom," *Yale Review*, 1898).

EMPTY HOUSES.

Under income tax, Sch. A, the net allowance for void property is given,³ but the House Duty statistics do not show the amounts of duty "allowed by schedule,"⁴ so that we have no means of computing the number of houses void in any year. Mr. Masterman stated in the House of Commons that the percentage of void houses had increased of late years:—

1902-3,	percentage	4·8
1909-10	„	6·3
1910-11	„	5·9. ⁵

¹ *Vide* p. 53.

² *Vide* p. 60.

³ *Vide* p. 64.

⁴ P. 53.

⁵ Hansard, Vol. 47, col. 1,491.

This information was probably obtained from rating sources.¹

The actual duty irrecoverable from this and other causes was at one time given in the official reports, but it is difficult to compute the number of houses therefrom because of the varied rates of tax involved. The allowance for void property under Sch. A includes mills, factories, etc., and there is no good method of ascertaining therefrom the number of dwelling-houses affected.

The 28th Report ² shows the duty not recovered in respect of unoccupied houses and from other causes from 1870-1 to 1882-3. From 10·8 per cent. for England and Wales in 1870 it sank to 9 per cent. for some years, rising abruptly in 1878-9 to nearly 12 per cent., and remaining over 11 per cent. till 1882-3. For Scotland, owing to the administrative methods adopted in making the assessments, it was always under 1 per cent.

The corresponding figures in recent years must be obtained by computing the duty for each class from the tables and subtracting the actual duty. For 1911-12 ³ the percentage for private dwelling-houses was 9·4, for residential shops 12·6, for public-houses 1·2, for farmhouses ·3, and for lodging-houses 1·6, the percentage for the whole House Duty being just under 9. This, it should be observed, has to cover reductions in values and losses from other causes than voids, and since the details under Sch. A show that rather more than 4 per cent. of the gross assessment on houses, messuages, etc., was allowed as voids, it is probable that the House Duty figure is not very different.

The census furnishes some relevant information.⁴ The

¹ On 15th March, 1912, Mr. John Burns stated in the House of Commons, in debate on the Housing of the Working Classes Bill, that there were 500,000 houses void in the country generally, 60,000 being in London.

² Pp. 244, etc.

The official evidence by T. Sargent, before the S. C. on Poor Rate Assessments, 1868, that the loss on House Duty assessments was 1 per cent. and *included* loss by voids, must have been given under a misapprehension as to the true facts.

³ *Vide* 56th Report, p. 70.

⁴ For definitions, etc., see S. C. on Town Holdings, 1890, p. 663.

following is quoted from Sir Thomas Whittaker's "Ownership and Taxation of Land":—

HOUSES AND PERSONS.

Year.	Houses Uninhabited to Inhabited.	Persons per House.	Persons per Square Mile.
	Per cent.		
1811 . .	2·84	5·65	174
1831 . .	4·83	5·60	238
1851 . .	4·68	5·47	307
1871 . .	6·14	5·33	390
1891 . .	6·83	5·32	497
1901 . .	7·17	5·20	558
1911 . .	5·72	5·05	618

Mr. Mallock remarked that the new houses provided have exceeded the requirements of the population because "in 1905 £7,000,000 had to be deducted from the assessed value of houses Sch. A " for void property. "The average value of premises being £23, it thus appears that there were over 300,000 premises unoccupied" ("Phantom Millions," *Nineteenth Century*, 1909, p. 761).

But to the amount allowed as above should be added one-fifth (because of the repairs allowance), making £8,400,000 gross for comparison with House Duty statistics. Then of course some of the premises *exempted* from tax under Sch. A have also been void, and if these are taken in proportion and the result added, the final figure has at any rate the virtue of being a maximum one. In the absence of any reasons to the contrary it may then be subdivided in proportion to the various classes of premises, making up the whole class of Sch. A messuages in order to ascertain the number of premises void in each class.

USES OF HOUSE DUTY STATISTICS.

(1) The chief use for the determination of the **distribution of wealth and the number of taxpayers** is discussed at length in Chapter XIII.

(2) **Value of Furniture in Great Britain.**—Vide Chapter XI. on "National Capital."

W. J. Harris used the classification of values to estimate the value of furniture, by assigning an average amount to each grade:—Houses—under £10, £18; £10 to £15, £40; £15 to £20, £60; £20 to £25, £100; £25 to £30, £130; and so on, making a total of £599,000,000 (*S. J.*, 1906, p. 726).

(3) The classification tables have been used to show the increase of **moderate incomes** (houses in classes from £20 to £50) compared with those above (Goschen, *S. J.*, 1887).

(4) **Wages and Profits.**—W. H. Mallock uses an index number (obtained by dividing the “gross income reviewed” by the number of private houses charged to House Duty ¹) for comparison with an index number of wages. The validity of the method would perhaps be greater if the divisor were confined to houses having a relation to the tax liability, but it might still contain the average income fallacy.²

(5) **Progress of Housing.**—Some of the quotations under heading “Shifting between Values” refer to this use.

Palgrave, *S. J.*, 1869, uses Baxter’s data from poor rate figures, etc.

The yearly increase in the number of dwelling-houses under £20, 1900–1 to 1912–13, is used to show the progress of housing, reference being made to the effect of revaluations (Report of the Land Inquiry Committee (Urban), p. 72).

This increase represents only the *increase* in houses (71,500 annually), and takes no account of those built to replace those demolished (estimated at 20,000) (*ibid.*, p. 80).

Reference to 1901 statistics and comparison with 1833:—45 per cent. were houses “under £10,” but in 1833 they were five or six times as numerous as those above (Institute of Surveyors, Transactions, 1904–5, H. T. Steward on “Housing”).

(6) **Improved Standard of Living.**—Giffen, “Progress of Working Classes,” *S. J.*, 1883; “General Uses of Statistical Knowledge,” *S. J.*, 1885. Craigie: full discussion of House Duty Statistics, *S. J.*, 1902.

(7) **Income Tax Evasion.**—Houses over £30 compared with assessments over £200 to determine number evading

¹ “Statistical Monographs.” His figure for 1900 appears to be wrongly calculated.

² P. 374.

tax (H. C. 384 of 1872 and 397 of 1873; Levi, "Reconstruction of Income Tax," *S. J.*, 1874).

(8) Use of House Duty statistics to determine the numbers of **shopkeepers liable and not liable to income tax** respectively.

(a) Assumption that the residential portion of premises equals one-third of the value and is also one-tenth to one-eighth of the income at about £150, so that a £50 shop (£60 in London) corresponds to an income of £160; (b) 80,000 cases above this limit, $\pm$ 30,000, as taxpayers, and 230,000 below £50 (but above £20); (c) by deduction from census figures of occupation there would be 280,000 below £20. (The number of "lock-up" shops for *small* retailers is not large, so that this figure is in conflict with the number gained by using the census enumeration of *buildings*¹) ("The Amount and Distribution of Income (other than Wages) below the Exemption Limit": British Association Committee's Report, *S. J.*, 1910, p. 61).

(9) **Inquiries into the Incidence of Taxation.**—G. H. Blunden uses the I. H. D. figures to divide up property and to determine distribution (*S. J.*, 1896). Also Col. G. W. Raikes, Institute of Surveyors, Transactions, 1896.

ADDITIONAL INFORMATION BEYOND THAT CONTAINED IN THE REPORTS.

(1) **Parliamentary Papers.**

H. C. 125—1845. Houses charged to Window Duty.

H. C. 259—1845. Window Tax and Property Tax compared for certain roads in London, in classes, 1843-4.

H. C. 630—1849. Graduation of Ratings in Lancaster, Suffolk, Hants, and Gloucester.

H. C. 54—1852. House Duty, Numbers in Counties, and Window Duty, showing loss sustained.

H. C. 331—1852. House Tax—City of London appeals.

H. C. 360—1852. Various Divisions—Houses classified.

H. C. 547—1852. Houses charged at each rate, 1851. Classified Ratings £5 to £10 and £10 to £20 in London,

¹ *Vide* p. 127.

Liverpool, Manchester, Birmingham and Sheffield, with estimated yield of House Duty.

H. C. 106—1852-3. House Duty, Population, etc., by Electoral Divisions, England and Wales.

H. C. 244—1852-3. An important Return, in *Counties*, for Great Britain, showing (1) the number of houses charged to Window Duty, 1851, and amount charged ; (2) the number and amount charged to House Duty (this information being subsequently included in Official Reports—*vide* 13th Report); and (3) number of houses between £10 and £20 in value (either assessed to Income Tax, or rated to the poor), and estimated yield for House Duty at 9d. for shops, and at 1s. 6d. for houses (*vide* footnote on p. 118).

H. C. 5—1859 (2). Scotland, in *Counties*: Houses classified £2 to £10.

H. C. 400—1860. England and Wales: *Counties* and *Parliamentary Divisions*: Poor Rate Assessments, ratings of £10 and over, House Duty Assessments, Electors.

H. C. 572—1860. England and Wales by *Counties*: Numbers of houses in classes £20 to £25, £25 to £30, £30 and upwards. *Cities and Boroughs*: Messuages and tenements of £8 and upwards.

H. C. 155—1861. Amounts and numbers in Chelsea, Kensington, Hammersmith, Fulham and Scotland.

H. C. 358—1862. Scotland: Dwelling-houses, 1857 to 1861. Annual values of £3 and £4; amount of ratings.

H. C. 410—1862 (reprinted as 1866, No. 131). Return of Population and Houses.

H. C. 428—1863. Return by *Counties* and *Divisions*, showing numbers of houses in classes £20 to £30, £30 to £50, £50 to £100, £100 to £150, £150 to £200, etc.

H. C. 279—1866. England and Wales: Male Occupiers; various rentals classified—not exceeding £10, £10—£11, etc., up to £20.

H. C. 494—1866. Electoral Returns: Male Persons in each Borough, etc., in occupation of houses, £10 to £20, £20 to £30, etc.

H. C. 143—1867. Farmhouses, England and Wales (23,582: £557,720 annual value).

H. C. 341—1867. Certain Parliamentary Borough and County Statistics of House Duty.

H. C. 384—1867. Return by Counties and Divisions for 1865-6 similar to No. 428 of 1863.

H. C. 11—1867-8. Dwelling-houses, not covered by a Composition Act, on which the owners pay poor rate by agreement with the assessing authorities, in Parliamentary Cities and Boroughs in England and Wales (98,598 cases).

H. C. 300—1871. House Duty in the Metropolis, by Wards (1870-1).

H. C. 384—1872. Classification of Houses, by values (*vide* also S. C. on Town Holdings, p. 663).

H. C. 292—1882. County Return for Sch. A and House Duty charged.

H. C. 206—1883. County Return for Sch. A and House Duty charged, 1880-1 and 1881-2.

H. C. 25—1884-5; H. C. 235—1884; H. C. 39—1892; H. C. 217—1896, in continuation.

H. C. 344—1883. Very detailed classification *by Counties*, showing values £20 to £25, £25 to £30, etc., up to £1,000, and also premises exempt from House Duty (see also Leone Levi, *S. J.*, 1884).

(2) Commission Reports.

S. C. on Town Holdings, p. 368, Appendix XIV.

Metropolis.—Special information obtained from the Inland Revenue Department, classifying shops and dwelling-houses, 1881-2 and 1887-8, by numbers in several classes (£20 to £25, etc.), with percentage borne by each class to the total.

TABLE H. D.—Numbers of Houses, £20 and over—Annual Value (Great Britain), 1851 to 1873 (in thousands).

Year.	Charged at Shop Rates.			Dwelling-houses.
	Public-houses.	Farm-houses.	Residential Shops.	
1851-2 . . .		189·1		275·9
1852-3 . . .		189·1		277·1
1853-4 . . .		189·4		281·7
1854-5 . . .		193·7		291·3
1855-6 . . .		194·0		295·0
1856-7 . . .		195·2		299·9
1857-8 . . .		198·0		307·8
1858-9 . . .		201·8		317·4
1859-60 . . .		204·7		327·9
1860-1 . . .		208·3		336·1
1861-2 . . .		210·0		346·4
1862-3 . . .		214·3		363·3
1863-4 . . .		219·1		375·0
1864-5 . . .		225·2		389·5
1865-6 . . .		236·3		412·0
1866-7 . . .		240·1		424·4
1867-8 . . .	62·4	26·5	161·1	450·7
1868-9 . . .	65·4	27·0	166·2	472·1
1869-70 . . .	67·5	27·5	172·5	486·2
1870-1 . . .	68·6	28·2	178·8	520·8
1871-2 . . .	67·9	30·8	180·1	527·2
1872-3 . . .	67·8	32·1	181·1	536·9
1873-4 . . .	70·3	32·2	190·6	557·5

TABLE H. D. (continued).—Numbers of Houses (Classified) (Great Britain) since 1874 (in thousands).

Houses not charged to House Duty.						Houses charged to House Duty.								
Year.	Separate or Artisans' Dwellings.	Houses under £10.	£10 and under £15.	£15 and under £20.	Messages and Tenements not used as Dwellings.	Total not charged to House Duty (including Hospitals, etc.).	Shops (Residential).	Public-houses.	Farm-houses.	Dwelling-houses.			Lodging-houses (included in Dwelling-houses till 1890).	
										£20 to £40.	£41 to £60.	All Values.		
1874-5	—	3,000.4	590.4	331.3	350.1	4,279.7	193.0	70.0	32.2	—	—	569.3	—	
1875-6	—	3,039.0	613.5	342.6	377.6	4,386.2	195.8	70.2	32.2	—	—	583.3	—	
1876-7*	—	2,987.2	680.8	376.3	391.3	4,444.4	208.3	75.0	32.9	—	—	628.6	—	
1877-8	—	3,032.0	715.3	393.9	331.3	4,502.9	212.7	76.1	32.8	—	—	651.0	—	
1878-9	—	3,063.3	744.2	410.4	369.9	4,599.1	217.2	76.2	32.9	—	—	675.3	—	
1879-80*	—	3,090.6	755.0	424.7	370.7	4,656.7	227.7	81.4	33.7	—	—	713.2	—	
1880-1	—	3,111.0	778.9	441.7	381.0	4,729.2	231.4	81.6	33.5	—	—	734.5	—	
1881-2†	—	3,124.1	790.7	460.4	386.1	4,778.5	232.2	82.0	33.3	—	—	763.9	—	
1882-3*	—	3,136.6	843.0	478.1	362.7	4,840.6	242.2	84.8	33.1	—	—	793.8	—	
1883-4	—	3,160.1	867.1	496.6	371.7	4,916.3	244.4	84.7	32.8	—	—	809.3	—	
1884-5	—	3,183.4	890.4	514.5	376.0	4,986.7	243.2	84.0	32.6	—	—	816.6	—	
1885-6*	—	3,174.8	932.8	517.9	386.7	5,036.6	248.9	84.6	32.4	—	—	838.7	—	
1886-7†	2.2	3,197.8	952.6	535.1	390.9	5,102.6	246.8	83.9	32.1	—	—	851.3	—	
1887-8	2.5	3,219.4	979.2	551.8	401.9	5,179.1	247.0	83.6	31.9	—	—	856.7	—	
1888-9*	6.6	3,231.0	1,024.6	552.4	407.0	5,246.8	250.7	85.4	31.5	—	—	874.7	—	
1889-90	10.9	3,250.5	1,059.4	569.6	416.7	5,332.6	249.4	85.2	31.3	—	—	882.2	—	
1890-1	3.7	3,271.3	1,088.3	586.5	427.3	5,401.5	249.9	85.6	31.2	572.5	150.1	—	878.2	12.6
1891-2†	14.5	3,286.3	1,122.7	599.4	434.8	5,482.4	249.3	85.8	31.1	585.3	150.7	—	889.6	13.9
1892-3	17.2	3,295.9	1,150.6	609.2	453.1	5,550.9	249.9	85.7	31.2	596.4	151.5	—	900.7	15.2
1893-4*	16.7	3,221.1	1,219.2	607.4	458.8	5,551.1	263.3	85.7	31.8	633.0	156.1	—	946.3	15.0
1894-5	22.1	3,231.2	1,250.7	621.9	473.2	5,625.4	262.5	86.1	31.7	646.1	157.6	—	960.1	16.3
1895-6	23.1	3,248.0	1,291.5	641.9	484.5	5,715.8	265.6	86.3	31.6	662.9	159.7	—	979.1	17.8
1896-7†	23.9	3,259.6	1,338.8	661.3	499.9	5,810.6	266.8	87.7	31.4	690.4	164.7	—	1,012.4	18.6
1897-8	26.3	3,269.3	1,384.4	684.4	503.5	5,895.3	270.2	87.7	31.2	711.4	166.9	—	1,035.9	19.8
1898-9*	36.5	3,202.1	1,453.3	704.5	523.2	5,946.9	290.1	92.9	32.7	776.3	176.5	—	1,117.5	19.7
1899-00	40.5	3,219.8	1,512.2	737.2	544.4	6,082.7	291.3	92.9	32.5	805.8	180.0	—	1,152.0	21.5
1900-1	42.6	3,230.5	1,568.7	771.4	561.6	6,203.6	293.8	93.2	32.5	834.8	184.3	—	1,187.8	23.0
1901-2†	31.4	3,245.6	1,622.2	804.4	571.6	6,303.8	295.3	93.3	32.3	865.0	192.9	—	1,231.1	24.2
1902-3	36.5	3,247.1	1,672.9	835.5	574.2	6,396.4	297.8	93.1	32.2	892.9	197.2	—	1,264.6	24.6
1903-4*	39.8	3,122.3	1,813.1	858.3	592.0	6,454.2	312.6	96.5	33.1	956.0	210.8	—	1,350.4	23.5
1904-5	54.6	3,134.3	1,856.2	889.7	607.0	6,571.4	313.1	95.8	33.1	979.6	217.3	—	1,381.6	24.9
1905-6	58.7	3,148.8	1,915.2	924.8	634.0	6,712.7	307.2	95.7	33.0	1,006.8	222.3	—	1,414.4	25.9
1906-7†	62.8	3,155.9	1,961.3	948.0	650.3	6,811.8	305.1	95.4	33.0	1,028.5	230.5	—	1,446.5	26.2
1907-8	65.0	3,163.0	2,005.0	975.0	665.0	6,907.0	304.8	94.4	32.9	1,047.5	232.7	—	1,467.6	27.2
1908-9	65.2	3,169.2	2,044.8	1,002.1	679.7	6,995.4	305.2†	93.6†	32.9†	1,069.9	234.8	—	1,491.8	27.2
1909-10	72.0	3,175.4	2,089.5	1,031.6	692.9	7,096.1	304.1	92.7	32.9	1,084.5	234.9	—	1,507.1	27.8
1910-11*	74.7	3,240.2	2,103.8	960.4	696.9	7,111.6	314.3	91.3	33.4	1,102.5	237.5	—	1,532.6	26.4
1911-12	79.7	3,242.3	2,151.6	985.6	718.8	7,215.8	311.8	90.7	33.4	1,118.9	235.2	—	1,544.9	27.8
1912-13	81.0	3,240.8	2,179.4	1,004.4	736.0	7,280.0	308.2	89.2	33.3	1,134.7	234.5	—	1,558.7	28.7
1913-14	84.0	3,332.5	2,210.8	1,021.3	752.8	7,340.5	306.2	88.7	33.2	1,150.4	235.0	—	1,574.3	29.3

New assessments, England and Wales (ex Metropolis).

† Sub-classifications given since 1908-9.

New assessments, Metropolis.

† Sub-classifications given since 1908-9.

† New assessments, Metropolis.

* New assessments, England and Wales (ex Metropolis).

CHAPTER IV.

INCOME TAX (SCHEDULE A) IN IRELAND.

THE VALUE OF REAL PROPERTY.

THE conditions in Ireland are so different from those in Great Britain, and are so little understood, while their statistical effects are of such considerable importance, that it is necessary to give special consideration to the subject. Irish valuation is very involved and difficult in its history, and although the literature of the subject in reports of Commissions and the evidence and appendices is voluminous, there has apparently been no attempt to trace the definite statistical facts, absolute and at the same time actually comparable, over the past eighty years in the manner that is here essayed.

Brief History of the Valuations.

When the tax was introduced into Ireland in 1853 it was directed that the basis under Sch. A should be the annual value of all tenements and rateable hereditaments according to the valuation in force for poor rate purposes. Copies of the last rates made had to be supplied by the local authorities,¹ but only when required² in subsequent years, because the Sch. A assessments were "continued," as in Great Britain,³ until the year of re-assessment. The poor rate valuation and the income tax assessments therefore came into close relationship at recurring intervals of about three years, the latter being altered in the intervening years only as regards new properties, structural alterations, and decreases. Provision was made that if, on appeal, the

¹ 16 & 17 Vict. c. 34, s. 12.

² 17 & 18 Vict. c. 24, s. 5.

³ *Vide* p. 31.

valuation was shown to be in excess of the rent the assessment might be reduced, so far as it was assessed upon the tenant, and the balance charged upon the lessor.¹ There are certain properties, used for public and charitable purposes, which do not pay poor rates,² and which are valued only at half the rent, but the income tax is charged on the full rent, irrespective of the valuation list. It should be noted that in Ireland there is no rating upon agricultural improvements, erection of farm buildings, etc., for the first seven years, and also that shooting rights are not rateable.³ The latter, for income tax, are assessed under Sch. D when separately let.

It is obvious that no estimate can be formed of the comparative value of the Sch. A assessments, and their approximation to true values, without some consideration of the history of poor rate valuation in Ireland. The literature of the subject is very considerable, and the following observations represent a condensed summary of so much as is relevant to the present subject.

The first of the Irish Valuation Acts was that of 1826, which was designed to provide for a more equal levying of county cess charges and grand jury rates upon various *areas*. At that time a general Ordnance survey was in progress, and a Commissioner of Valuation was appointed to value the counties already surveyed. The valuation of all *lands* was to be made according to a fixed average scale of prices for wheat, oats, barley, potatoes, butter, beef, mutton, and pork, and houses were to be valued at the rental value less one-third part of such rent. This Act and subsequent amending Acts dealt entirely with a general *townland* valuation, and not with the several properties or tenements in each townland, and did not provide for a revision.⁴

In 1838 a poor relief system was introduced,⁵ and a method

¹ 16 & 17 Vict. c. 13.

² 17 Vict. c. 8, s. 2.

³ Valuation Act, 1852, s. 13.

⁴ Memorandum on Local Taxation in Ireland prepared for the Royal Commission on Local Taxation, 1897. These Acts were repealed by the consolidating Act of 1836.

⁵ 1 & 2 Vict. c. 56.

of valuation similar to the English was provided, the basis of valuation being the net annual value of land and buildings, viz., the rent at which each property was worth to be let, the *probable annual average cost of repairs, insurance, etc.*, and all rates, taxes, etc., except tithes, being paid *by the tenant*. Valuation proceeded rapidly, and was completed, except in three unions, in 1842. A Parliamentary Return in 1843 gives very full details for the whole of Ireland and also for each union, with a classification according to values, in £5 stages up to £50, and one class above £50. The total net valuation was £13,428,787, but this was before all appeals and adjustments had been dealt with, and was, comparatively speaking, too high. There was no real decrease in values in the years immediately following, but in 1845 the valuation had settled down to £13,204,234,¹ and this on the official evidence may be taken as the valuation for those three years. The return for each union also showed the approximate extent to which it was below the true rental value and what the difference between gross and net was in each case. The following quotation from an official letter is informing :—

“TO LORD ELIOT.

“It will, I believe, appear that the valuations for poor rates in Ireland are more nearly and more generally correct than has been supposed ; and I believe also that they will be found fully to sustain the views expressed in my letter to Lord Morpeth of the 9th March, 1841, which is given in the last Report of the Poor Law Commissioners, and to which I beg to refer your Lordship.

“When it is considered that these valuations are the first efforts which have been made to obtain a general tenement valuation in this country—that they exhibit, separately, every house or other holding, of whatever size or value—and that they have been completed within a comparatively short period, by a large number of valuers, separately appointed by the several boards of guardians, and proceeding simultaneously in all parts of the country :—when these circumstances are considered the results here given cannot, I think, be deemed unsatisfactory.”

“ . . . The variance in the items of which the gross value is composed is of less consequence, as the net or rating value is not

¹ Poor Law Commissioners' 12th Annual Report, p. 228.

formed by deducting the charges of repairs, insurance, taxes, etc., from the gross value, the net value being always estimated in the first instance ; and as it is the almost invariable rule throughout Ireland for tenants to defray all the annual charges on their holdings, the rent paid by the occupier is in fact usually a net value.

“ GEORGE NICHOLLS.

“ Poor Law Commission Offices,
Dublin, 19th February, 1842.”

The townland valuation was still proceeding on minute and elaborate lines, and the difference in principle between the two systems was considered by a Select Committee in 1844.¹ They dismissed an existing tithe valuation as so defective and lacking in uniformity as to be worthless, and found that the townland valuation could not be used for poor rate purposes because its unit of valuation was too large, and because it omitted properties which, though exempt from county charges, were liable to poor rates, while, its whole object being to ascertain *relative* ability in the county area, it failed to give a sufficiently positive or absolute result. They also found that the poor rate valuations, though sound in principle, and giving correct relative values *within each union*, were not sufficiently uniform for county rates. So they proposed one valuation for all purposes, to include and to show separately all property liable to any local rate, and based on the poor relief principle, the “ net annual value to let.”

A Commission on the Grand Jury Laws in 1842 had reported in favour of Mr. Griffith's valuation under the 1836 Act, and in an appendix he himself stated that the difference between his values and the actual letting value was about 25 per cent. “ under the full or rack rent value, but very near that of many of the principal landed proprietors of the country.”²

By 1846 Griffith had completed twenty-six out of thirty-two counties. An Act was passed for a general valuation, under which a tenement valuation was completed for the six remaining counties, and the cities of Waterford, Cork,

¹ H. C. 513—1844.

² Memorandum, p. 5.

Limerick, and Kilkenny were also valued. It could be extended to the other areas on application of grand juries and town councils, the 1836 valuation meanwhile remaining in force. This Act directed an additional valuation by townlands, on a price basis for lands, and letting value less one-third for houses, so that "the principle of a tenement valuation was introduced and of a revision of such valuation, but the two divergent bases of valuing for poor rates and county assessments were still retained."

In 1852 the Act which is the basis of the present system came into force, repealing the Act of 1846, but providing for the alteration of the tenement valuations under the latter to conform to the new principles. With the amending Acts (1854, 1860, 1864 and 1874) it fixes one uniform tenement valuation for lands and tenements for all purposes. The valuations began in 1848 and were not complete until 1865, the various county valuations coming into use as completed in the interval.

"**Griffith's Valuation**" was based, for lands, upon fixed prices of eight commodities, and as regards houses upon an estimate of the rent, the tenant bearing all charges (except "tithe rentcharge") and repairs, so that it was a blend of the 1836 grand jury valuation and 1838 poor relief valuation.

With regard to property exempt from rating it is only necessary here to say that the seven years exemption for improvements and the non-rateability of sporting rights, and of turf bogs and turf banks for which no valuable consideration is paid, affect income tax statistics, but the "half rated" property (public, charitable, scientific, and other purposes) does not.

The 1852 Act contemplated a possible revaluation of lands at intervals of not less than fourteen years, but did not make provision for funds, and no such general revision has in fact been made. For new and altered properties an annual revision list exists. In towns an occupier can apply to be included therein, but no considerable number of applications is made, as the early valuations are already much below the rent. There is no provision in the Acts for obtaining rent returns.

By the Local Government (Ireland) Act, 1898, in a general revaluation in county boroughs *land* can be valued, not on the old produce price basis, but on the same basis as houses. Belfast has completed a general revaluation, and one is in progress in Dublin.

Use of Poor Rate Valuation for Income Tax Assessments.

It will be obvious that the movements of the aggregate assessments down to 1868 (*vide* Table A4) do not necessarily reflect any true movement of values for Ireland, but such a movement was masked by the effect of transferring areas gradually from one kind of valuation to another.

The valuation corresponds to the British rateable value, which is already exclusive of repairs. Therefore, as it is adopted for the Sch. A *gross assessment*, the further allowance of one-sixth and one-eighth for repairs under the Finance Act, 1894, from a value which has already taken such repairs into consideration involves a double allowance. In general the owners do repairs to houses in towns, so that the assessments are already one-sixth below the rent, and the allowance is not given.¹ But if it is not below the rent to quite that extent, the full sixth is allowable. So a reduction in valuation *may* lead to an increased *net* Sch. A assessment. Although in rural areas the rent is frequently nowadays below the old valuations, the one-eighth allowance is always made. The owner is only responsible for an assessment on the rent, the difference between rent and valuation being the "income" of the tenant, and, speaking generally, this beneficial occupation is exempt and appears in the exemption column of the statistics. How far it is a conventional figure—the mere difference between a real rent and an ancient valuation—and how far it really approximates to the value of the tenant right are not strictly determinable questions.

Irish Land Act Sales.

The tenants are of course exempt in most cases, and so the assessments are exempted from the date of the purchase

¹ Finance Act, 1894, s. 35 (*d*).

agreement. But in the ordinary course the interest paid would be kept in charge, and the amount appearing in the exemption column would not represent the whole value of the land in question. Since November, 1905, however, the properties have been exempted outright; the usual deduction of tax by the new owner from the interest he pays has not been made, but the Land Commission deducts income tax from the vendors and makes a single return for the whole of Ireland. Statistically the effect is to overstate the true exemptions, and also to overstate the Sch. D for Ireland, but the net liable income remains unaffected.¹ In the case of liable tenants the payments of interest are allowed as a deduction from their assessments.²

How closely has the Irish Poor Law Valuation (and Income Tax Assessment) approximated to True Values?

Dealing in the first place with the past, we may refer to the opinions quoted above as to the state of the early valuations. The following information is derived from official sources:—

1842.—"The Poor Law Valuation of 1838. . . . From the altered state of the times, the consolidation of farms, the fall of prices, the increase of local taxation, a revision has been found necessary from time to time. . . . Both the original valuation and that, as now revised by local authority, will probably be found less accurate than the valuation in progress . . . under Mr. Griffith." But even the poor law valuation was said by Sir George Nicholls to be better than that of England (**Report on Consolidated Annuities, 1852**).

In 1843, a return of the total poor law valuation was published showing, with only three estimates, the completed results for each union. In two-thirds of the reports an estimate was given of the percentage extent to which the valuation was below the "letting value." These reports were subsequently tabulated in the Appendix to the **Report on Townland Valuation, 1844**,³ but no endeavour has hitherto been made to work out the net effect for all Ireland from these estimates. In the class where equality was

¹ *Vide* p. 217.

² *Vide* p. 70 on building societies.

³ P. 196.

asserted this estimate has been accepted, and the mean points for the other classes have been adopted, except the "over 20 per cent." class, which has been put at a mean of 30 per cent., while the best possible estimate has been made for each union where general statements were made. The average (unweighted) percentage deficiency is 11·8. The average has also been obtained by weighting each union according to its rateable value on the first completed uniform valuation by a single authority,¹ and the result obtained is 11·7. It may be taken that the unions for which no reports were obtained would give a similar result: they are well distributed, and their average rateable value is the same, so that the evidence of these early reports by the local authorities may be summarised by the estimate that the poor law valuation was 12 per cent. below the true letting value according to Irish practice. This seems to bear out Sir George Nicholls' view, and compares favourably with the valuation in England and Wales, even at a much later date, 1876-7,² which, extra metropolitan, was over 12 per cent. below the letting value, as indicated by the Sch. A assessments.

1844.—There is other evidence that at this date the valuation was not more seriously below the true letting value. In the **1844 Evidence on Townland Valuation** it is stated that complaints of inequality were not general, that the valuation was "below, but not very much," and that it was "as good as England."³ As regards the townland valuation, houses over £5 were valued at two-thirds and houses under £5 were omitted, so that comparison is difficult; but Griffith states that generally one-third should be added to give the poor law valuation, and there was often as much as 70 per cent. difference.

1852.—From the report and evidence upon **Consolidated Annuities** it appears that the rapid decline in values after 1846 was not *fully* exhibited in the poor law valuation, striking as the change in the latter seems to be. In some

¹ As given in Appendix No. 1 of the Report of S. C. on General Valuation, etc., Ireland, 1869.

² *Vide* 28th Report.

³ Qs. 494-5, 1,736-9, etc.

cases the valuation was held to be considerably above true value.¹ "But there are now unfortunately too many places in Ireland where the valuation is maintained merely as affording an indication of the *comparative* capability of the parties to contribute to the public requirements; the actual *bonâ fide* value of the property cannot frequently be taken at half what it is represented."²

1864.—A draft Report of the **Select Committee on the Taxation of Ireland**, referring to a parliamentary paper on relative capacity to bear taxation,³ said:—"Sch. A is assessed in Ireland on a valuation supposed to be somewhat under the nominal rental, where Great Britain is on the rental. But it has been proved to your Committee by many witnesses that although in some instances the rental in Ireland is higher than the valuation, yet on an average of years the actual rent received is not so." One witness put the valuation at 10 per cent. below.⁴

1865.—In the actual report in the following year it was stated⁵:—"It has not been proved to the Committee that the Irish taxpayer enjoys any important advantage in consequence of the tax being assessed upon the net valuation instead of the gross rent, as in Great Britain."

1869.—In this year a **Select Committee** reported on **Irish valuation**, but dealt more with the comparative accuracy of the valuation in different parts than the absolute value of the aggregate figures. The complaints that Ulster was rated much above the rest of Ireland were shown to rest upon a mistaken definition of "rent," for if the tenant right were added to the rent paid in Ulster the valuation was considered to be as much below in that province as elsewhere.⁶ It is clear that for all true comparative purposes the tenant right should be added to the tenants' rents. At this date rents were increasing generally,⁷ and one witness put the valuation at one-fourth below the letting value,⁸ and another said that the valuation (£13,000,000) corresponded to £18,000,000 true rental. An attempt was

¹ Qs. 4,069, 4,070.

² Report and Evidence, p. 454.

³ H. C. 452—1853.

⁴ Q. 5,329.

⁵ P. xiii.

⁶ Qs. 450, 4,745-63.

⁷ Qs. 1,578-83, 1,612, 1,627.

⁸ Q. 702.

made for sample or typical unions to determine the economic rental, as a difference between gross produce at current prices and expenses, to obtain a true value and to compare it with the valuation. Twenty-five unions outside Ulster showed 7s. 9d. average value per acre as against 8s. 9d. valuation, and twelve Ulster unions gave 12s. 8½d. average value against 10s. valuation. This, of course, was an attempt to prove the case against Ulster, furnishing "as a final result the remarkable fact that the general valuation of Ulster is not higher than that of other provinces of Ireland."

Another appendix to the same Report, after exhibiting the several dates at which the valuation of the counties was completed, asserted that it was evident therefrom that the valuation of the southern and western counties was made before recovery from the famine, when agriculture was neglected, with a result that the valuation in those counties "is considerably less than valuation in Ulster" made at more recent dates. It appended a statement showing "the increase per pound on the valuation which would be required in each county to make them equivalent to the valuation in Ulster."

It is possible to combine these apparently irreconcilable statements and to obtain a real estimate therefrom, taking the estimated increase required for each county and working it upon the actual valuation, as follows:—

	£
Actual valuation of three provinces	8,989,000
Aggregate additions required	1,837,000
Valuation of three provinces, to equal	
Ulster (net) basis	10,826,000
Valuation of Ulster	3,825,000
But the Ulster valuation was, by the	
other evidence, at least as much	
below its true valuation, including	
tenant right. In the same propor-	
tion this would add	781,000
Total rateable value	<u>15,432,000</u>

1870.—The Board of Inland Revenue stated ¹ that the valuation in Ireland was estimated to be 20 per cent. below the true letting value, which accords almost exactly with the result arrived at above.

1871.—The Report of the **Select Committee on the Law of Rating** in Ireland furnished some evidence of interest. It was pointed out that so far as lands were concerned there was a greater excess of rent over valuation in town divisions, so that the disproportion between the low rates of villages and the high rates of town divisions was less than it seemed to be.² But the lowness of valuation was said to apply more to houses, and particularly country houses.³ Objection to low valuation was minimised because of the saving in the income tax.⁴ Houses in towns were said to be depreciating in value, whereas lands were going up.⁵ Although one witness said the valuation of lands was less than one-half the true value, others were more reliable who asserted in one case that rents were “25 per cent. over the valuation,” and in another case that the “valuation *professes* to be 20 per cent. under the letting value.”

1878 and 1879.—The **Select Committee on the Irish Land Act, 1870**, introduced a new element into the question, the lowness of Griffith's valuation being discovered to have grave disadvantages where used as a basis for regulating loan advances! It was stated to be 25 per cent. below.⁶ Poor arable land would be equal in value to Griffith's figure, but good pasture land much above. The Board of Works would advance twenty years' purchase on Griffith's valuation, and, assuming that land was worth thirty years' purchase, “this advance would equal ten years' purchase of the rental.”

1876 to 1880.—**Irish Land Commission, 1880.**—In evidence it was stated that the most expert opinion considered an addition of 33 per cent. to Griffith's valuation in 1876 would give the letting value, raising it from £13,619,000 to £18,200,000.⁷ Several witnesses mentioned 25 per cent. to

¹ 13th Report, p. 130.

² Qs. 1,212 and 8,513.

³ Qs. 1,269, 1,614.

⁴ Q. 1,269.

⁵ Q. 4,639.

⁶ Q. 1,705.

⁷ Q. 744.

30 per cent.¹ Some lands were as much as 100 per cent. to 500 per cent. above, but where the north was 10 to 15 per cent. the south was 100 per cent. correspondingly. It was generally agreed that the valuation was no criterion of rent and had never been intended as such.²

1880.—Royal Commission on Agriculture.³—Mr. J. B. Greene, the Commissioner of Valuation, said that the valuation must be held to be a representation of the fair letting value of land between 1849 and 1852: “it is estimated that the addition which would probably be made to the present rateable valuation, in the case of a revaluation of Ireland, would amount to an average of 33 per cent. generally, and that the agricultural value of land which is now £9,100,000 would be increased to over £12,000,000.” This estimate was made without regard to the recent bad seasons. “I am of opinion that if Ireland were revalued to-morrow at a reasonable live-and-let-live rent over the whole of the kingdom, 33 per cent. over Griffith’s valuation would be a moderate valuation on the average, and *that would be* £2,000,000 a year under the existing rental of the country”—which he stated to be £20,000,000 at least, or £2,000,000 too high. He contradicted the assertion attributed to Griffith that at the *time* of valuation one-third should be added to give the actual rents, but said no actual figures were available.

1887.—Land Acts (Ireland) Commission.—There was an enormous mass of evidence before this Commission, directly upon the difference between rentals and the valuation, but it was nearly all particular, and therefore, in view of the varied effects of the depression upon tillage and grass land, and the different conditions obtaining in different localities, it was often conflicting. There is no general summary for Ireland, and indeed it is difficult to see how at such a time of change one was possible. Griffith’s estimate of 25 per cent. in the seventies was frequently repeated, and the opinion was expressed that the valuation (at 1886) was

¹ Qs. 1,576, 2,153.

² Qs. 657, 678, 2,967.

³ Vol. I., Qs. 28, 228, etc.

fair for tillage but deficient for grass lands. Rents had fallen rapidly even since 1882, and in one case were said to be 10 per cent. lower than in 1839 and $17\frac{1}{2}$ per cent. lower than in 1877, and in another place to be 20 or 25 per cent. lower than in 1852; ¹ but no general conclusions can be drawn from the evidence, except that the decline in values was very rapid.

1894.—Select Committee on Land Acts, Ireland.—It was stated that rents fixed in 1882 as high as Griffith's valuation "would not now be too high," from which it may be inferred that in 1894 agricultural depression from 1880 had not yet operated to reduce the true letting value below the valuation.

1894.—Royal Commission on Financial Relations between Great Britain and Ireland.—Evidence was furnished to show that the judicial rents less the rates payable by landlords out of those rents were 3·2 per cent. below the valuation,² and 23·4 per cent. below the old rents. Mr. G. F. Howe, an expert witness well qualified to give a reliable estimate, said:—"At the present time my opinion is that agricultural land is about the same value, if we could get at the letting value disclosed by the actual rents, as the amount of the valuation. I think it is assessed at about its proper value." He made it very clear that this was not equivalent to saying that the correct *tax* was paid in the aggregate, because the owners could pick out all cases of "rent below valuation" and pay on the rent only, whereas they never paid on more than the valuation in the converse case.³

For Dublin, on a sample, houses were in the valuation at £4,108, whereas the letting was £7,524, or 83 per cent. above. Attention was drawn to the double allowance given for repairs after 1894, viz., the "hidden" allowance by Griffith and the obvious allowance for income tax.

The evidence as to values given by Sir J. G. Barton was that a new valuation would give an increase of from 15 to 20 per cent.,⁴ but he appears to have confined this to houses,

¹ *Vide* Qs. 6,411, 10,998, 14,232, 14,278, 15,137, 19,118.

² Q. 7,118.

³ As 647,000 out of 719,000 were wholly exempt, they were indifferent as to whether assessment was over the rent.

⁴ Q. 5,650.

and to have regarded the land valuation as approximately correct on the judicial rents. This evidence, together with that of other witnesses, does not always appear to be consistent, but differences of opinion as to whether the judicial rent *really* as well as theoretically included the tenant right, and questions as to rates appear to complicate the issue. Perhaps one can best dispose of the matter in the words of the Report:—"A difference of opinion exists amongst the Irish witnesses as to whether the valuation in Ireland is now really below the letting value. Mr. Barton, the Commissioner of Valuation, maintains that it is, and that if a new valuation were made it would result in an increase of 20 per-cent., whilst Mr. Murrough O'Brien, one of the Chief Land Commissioners, and well acquainted with the value placed by his Commission on Irish land, considers that a new valuation, if fairly carried out, would lower rather than increase the assessment." The minority reports balance the opposing views, and generally do not arrive at a precise opinion, but, by giving some countervailing considerations not here relevant, arrive at the conclusion that the total income tax paid in the two areas Ireland and Great Britain is fairly comparable.

1897.—The evidence given by the Commissioner of Valuation, Sir J. G. Barton, before the **Royal Commission on Local Taxation in 1897**¹ is valuable as a comparatively recent statement of the position of Griffith's valuation. He stated that the valuation of land in Ireland based upon rent paid by the tenant *plus the sum paid for tenant right* is comparable with valuation based on rent paid to the landlord in England, and, unless tenant right is considered, no proper comparison can be made. If a new valuation is made it should be upon the rents fixed by the Land Commission, adding the interest on the sum paid for tenant right. The valuation by Griffith was 15 to 20 per cent. below the rack rent originally. As a result of the time taken in the valuation, "whilst in the south valuation is very much below the judicial rents, in the north it is rather above it." In Ulster the judicial rents were 8·96 below the valuation,

¹ Vol. I., pp. 125 *et seq.*

in Leinster 4·35 above, in Connaught 2·66 above, and in Munster 12·25 above, or on the average for the whole country 1·53 above, based on 288,000 cases.¹

He stated in very clear terms that in his view the method of valuation by Griffith included the tenant right,² and that valuation was really on the same basis for the whole country. A revaluation would increase the whole total both for land and for buildings, the land increase being chiefly in the south and partly due to the fact that large sums have been spent in recent years on improvements, reclamation, etc. In many cases the rent would exceed the valuation by 20 per cent. But it is very "difficult and dangerous" to compare judicial rents in Ireland with those in England, because the rent in England includes interest on all the buildings and improvements. Then, again, the exemptions from rating are more numerous in Ireland, being estimated at three-quarters of a million, exclusive of Government property.

In the valuation of new houses or houses structurally altered the letting value had to be "toned down" to conform to the general standard by a deduction varying from 5 per cent. to 30 per cent. This did not, however, bring them down absolutely to the Griffith level. In detail it was 16½ per cent. in Ulster, 24 per cent. in Leinster, 25½ per cent. in Connaught, 26¾ per cent. in Munster, and 23½ per cent. for the whole of Ireland.

1898.—Royal Commission on Irish Land Acts.—The Report and Evidence furnishes little save general confirmation on the question of aggregate values. An appendix³ summarises rental statistics for ten years 1881 to 1891 from the Land Commission Reports, and from these details the following table is compiled :—

Government valuation	£4,158,168
Old rents	£5,319,167
New rents	£4,220,774
Percentage excess of old rents	28
Percentage excess of new rents	1½

¹ County details were given in the 1894 "Financial Relations" appendices.

² Qs. 3,406, 3,409, 3,514.

³ P. 412.

These figures confirm the foregoing estimates in a remarkable manner.

1899.—The fifth volume of **Evidence before the Commission** is wholly devoted to Ireland, but contains nothing of substantial importance and is supplementary to the above.

1902.—The **Final Report** of this Royal Commission embodies some of Sir J. G. Barton's conclusions, but adds nothing relative to aggregate valuation.

1903.—Sir J. G. Barton, writing on valuation for rating in Ireland,¹ said the deductions from new valuations, "to make relative," varied from 5 per cent. to 30 per cent. in the south and west. In 1867 the completed valuation was £12,975,000, of which £9,100,000 was on land, and in 1901 land stood at £9,066,000; houses, £5,163,000; railways, etc., £704,000; Government property, £140,000, or £15,073,000 in all. In 1871 the exempt property was £424,208, which has probably doubled since. Of this £160,000 represented Government property, and the balance churches, chapels, schools, hospitals, asylums, literary institutions, and convents. Such property was valued exactly as other property. He anticipated the Belfast revaluation would give an increase of 20 per cent.

1903.—The **Select Committee on Irish Valuation** reported :—"We are satisfied that although probably not theoretically correct, yet practically speaking the total valuation of Irish land is not very far from just valuation, and that relatively it is approximately fair, the anomalies and inequalities which have crept into the system as applied to houses not being found in agricultural land to anything like the same extent." The valuation was admitted to be behindhand in all Irish towns, and Sir J. G. Barton reckoned a 25 per cent. increase would result in Dublin,² and 10 per cent. generally

¹ Institute of Surveyors, Transactions, 1902-3, p. 267.

² *Vide* also "Valuation of the City of Dublin," C. Dawson, Statistical and Social Inquiry Society of Ireland, 1897, p. 320, for comparison with Belfast. Belfast was actually raised from £1,271,170 to £1,396,027, after appeals, or just under 10 per cent. Dublin was raised from £1,002,023 to £1,177,940, before appeals, and if the amount allowed on appeal is similar to that in Belfast, this will give ultimately £1,124,000, or an increase of 11 per cent. I have strong reason for supposing that in neither case is the new valuation strictly

in the township on a revaluation. No addition to value had been previously made, for example, for licence value. It was stated authoritatively in evidence that 16 per cent. from the rent was taken to give rateable value generally for new houses, and one-fifth or one-fourth for old houses.¹ It was estimated that the revaluation of Belfast would add £300,000.²

1913.—Before the Departmental Committee on Imperial and Local Taxation Sir J. G. Barton again gave evidence that he was in possession of the ratio of difference in each locality “up to 33 per cent.” in some cases, from which a rough standard valuation might be made. He gave no general estimate for Ireland.

Summary as to Difference between True Value of Land and Income Tax Statistics, 1842 to 1914.

Broadly it may be stated that the 1842 figures in Table A4 were 12 per cent. below the net value. In 1852 values had sunk so rapidly that the figures are probably adequate. By 1864 the original poor law valuations had been replaced almost entirely by Griffith's values, which were lower, and, rents having moved upwards again, the statistics are perhaps fully 10 per cent. below true values. From this date the figures are stationary save for (a) additions and new properties, (b) the Belfast revaluation, while rental values moved upwards until 1880, so that the figures were 20 per cent. below values in 1870, 25 per cent. in 1875, and 28 per cent. *below* in 1880. After this date rents declined, and by 1897 “judicial rents” were just above the figures, so that full rental value of lands inclusive of tenant right would be still somewhat above, while houses generally having steadily risen were 23 per cent. above.

In 1903, after further depression, which tenants' improvements had tended to counteract in its influence on values, 10 per cent. seems to be a reasonable estimate, and in the opinion of many competent to judge it is now at least that proportion below, while houses have certainly increased in value.

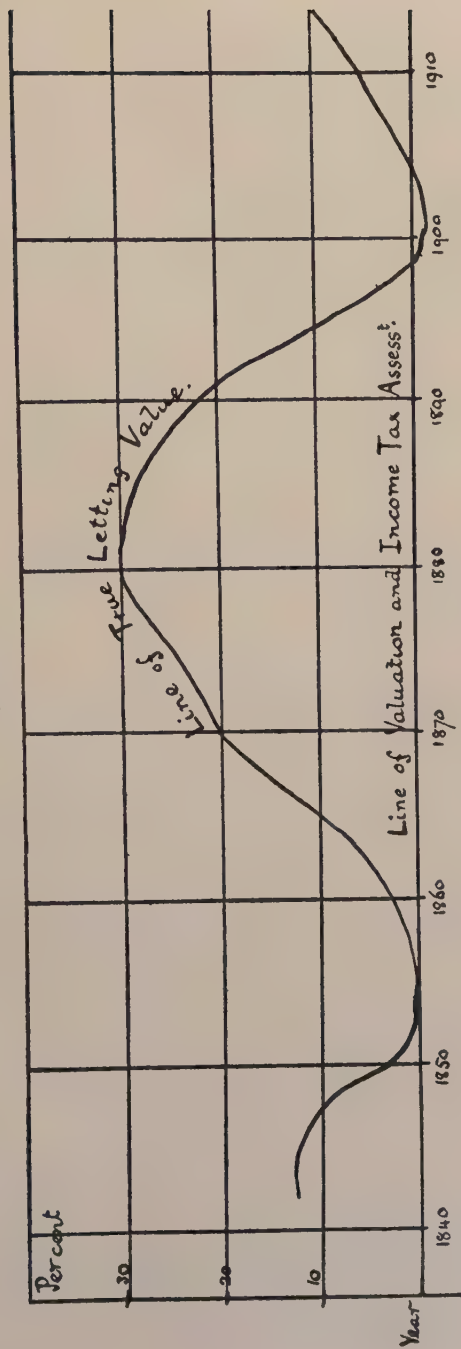
up to the true rack rental standard *on existing rents* after allowing for rates and insurance.

¹ Q. 963.

² Q. 791.

IRISH LAND.—REAL VALUE COMPARED WITH VALUATION.

GRAPH VI.



The following is a broad **estimate of the present value of Irish property** :—

Lands (thousands £).

Gross annual value, Sch. A, 1911-12 9,691

This is Griffith's rateable value, and to get the true gross before repairs are charged add one-seventh 1,384

Total 11,075

(The actual repairs under Sch. A at *one-eighth* of the above £9,690,506 = £1,211,314, the actual figure being £1,199,043.)

After the Irish Land Act, 1888, giving tenant right, great improvements were made, and these have probably more than counterbalanced the depreciated value due to agricultural depression.

But it may be assumed that for the country as a whole the value of lands is 10 per cent. in excess of valuation 969

True value of lands 12,044

Messuages and Tenements (thousands £).

Gross annual value, Sch. A 5,323

Wherever the valuation is not more than one-sixth below the rent, one-sixth repairs is allowed in all cases. If none were more than one-sixth below, the allowance would be £887,211.

It is actually £198,068 or 22·3 per cent., and it may therefore be fairly assumed that 77·7 per cent. of the properties are *more* than one-sixth below the rent.

$\cdot 2 \times \cdot 77 \times £5,323,266 = £827,235$ as a minimum.

It would be safer to say that they average 20 per cent. below 1,034

And the other 22·3 per cent. of the properties would average at least 10 per cent. below 129

Total true rateable value (messuages) 6,486

Add one-fifth (Griffith's deductions) 1,256

True gross value, messuages 7,742

Other property 2

Gross value, total for Ireland £19,788

It is obvious that although the Irish statistics are sufficiently close to the truth to be included in much larger aggregates without risk for general purposes, **they should not be used for (1) periodical comparisons for Ireland itself, as a test of growth or decline**¹; (2) **comparison with other areas where an error of 25 per cent. is likely to be material**, unless a careful study is first made of the most voluminous literature of this very difficult subject, and unless the principles of valuation have been fully understood.

Giffen compares lands 1892-3 and 1906-7 with a footnote on the old valuation (*Quarterly Review*, July, 1909).

Bonar compares net assessments in decades 1854 to 1894 without recognition of these facts ("Irish Agrarian Problem," p. 20).

ADDITIONAL INFORMATION.

In addition to the reports on Irish valuation already quoted, the following Parliamentary Returns contain detailed information:—

H. C. 428—1840. Progress of Valuation (6 & 7 Will. 4, c. 84).

H. C. 331—1841. Progress of valuation.

H. C. 224—1842. Progress of valuation (more extended).

H. C. 235—1843. Irish valuation in poor law unions, showing classes £1, £2, £3, etc., and total rate in each union completed. No grand total for the 108 unions given.

H. C. 334—1843. Progress of valuation:—H. C. 212—1844; H. C. 216—1846; H. C. 701—1847; H. C. 446—1848; H. C. 407—1849; H. C. 346—1850; H. C. 553—1852.

H. C. 191—1844. Costs of valuation.

H. C. 159—1847. Poor law valuation, 1841, with population—all unions in detail. Aggregate, £13,187,421.

H. C. 889—1847. Values in four unions classified to complete the general Return of 1844.

H. C. 70—1849. Valuation of tenements in counties and boroughs in classes up to £8.

H. C. 200—1850. Valuation of tenements, 1846 and 1850, compared, in classes up to £8, for counties and boroughs.

¹ Wakefield estimated that 12,750,000 acres in 1817 yielded £17,250,000 rental, and it has been estimated that the reductions after 1893 have reduced the value to one-third of that value (Journal of Statistical and Social Enquiry Society of Ireland, August, 1899).

H. C. 4—1851. An interesting letter upon the position of valuation and its relation to rental. A discussion of the desirability of reverting from valuation on rent of tenements to the townland as a basis.

H. C. 268—1851. Return of costs of valuation—both kinds.

H. C. 403—1851. Tipperary valuation.

H. C. 128—1860. Counties and boroughs: area, population, and income tax. Classification of occupiers rated at various amounts, "over £50" down to £8.

H. C. 226—1865. Valuation of Government and other property exempt from rating (given by counties) (*vide* p. 157).

H. C. 300—1866. Cost of first townland ordnance valuation and the tenement valuation and annual revisions.

H. C. 144—1867. Agricultural holdings, with tenements in each, classified according to amounts (*vide* p. 74).

H. C. 96—1872. Area and population. Valuation by townships.

H. C. 122—1872. Value of property belonging to various corporate bodies.

H. C. 422—1872. Parliamentary electors. Classification of tenements in values.

H. C. 45—1874. Constituencies in Ireland. Details of ratings by boroughs, etc.

H. C. 159—1874. Value of houses in boroughs classified.

H. C. 424—1875. Tenement valuation.—Number of various classes.

H. C. 422—1876. Owners of Land, County details, with acreages.

H. C. 104—1883. Poor rate valuation, 1873-4 to 1881-2.

H. C. 17—1884. Number of tenements valued £4 in boroughs.

H. C. 22—1887. Valuation in electoral divisions.

H. C. 27—1887. Valuation in Electoral Divisions for each division, giving in detail value per acre, population, rateable value per head, average poor rate; and the average county cess in each county.

H. L. 24—1900. Rateable value for each district, union, county, etc.

CHAPTER V.

SCHEDULE C. INCOME FROM GOVERNMENT SECURITIES.

DEFINITION AND SCOPE.

“FOR and in respect of all profits arising from interest, annuities, dividends, and shares of annuities payable to any person, body politic or corporate, company or society, whether corporate or not corporate, out of any **public revenue.**”¹

“Dividends” in this connection originated in the public finance of the eighteenth century: it was the “share of the annuity created by the Legislature when the annuities represented by the ‘funds’ as we now use the term were made payable half-yearly.”² The term “public revenue” means not only the revenue of the United Kingdom, but also that of any foreign or colonial Government. Under this schedule of the tax no returns from individuals are called for, but the Bank of England, the National Debt Commissioners, and agents entrusted with payments deduct the tax and pay it over to the Revenue.

The stocks of friendly societies, industrial and provident societies, and, in certain cases, savings banks and charities are exempt from the tax, and also stock which is devoted under trust to the repairs of any place used for Divine worship. Stock belonging to His Majesty, or to an accredited minister of a foreign State, resident in the United Kingdom, and stock standing in the name of the Treasury and National Debt Commissioners are also exempt.³

¹ 16 & 17 Vict. c. 34, s. 2.

² Dowell's “Income Tax Laws” (seventh edition), p. 217.

³ 28th Report, p. 83.

PRESENT STATISTICS FURNISHED.

The details are now given annually in the following form :—

	<i>Income Assessed.</i>	(£ thousands) 1913-14.
Gross Income :—		
Funded debt and terminable annuities, including life annuities	£	11,194
Unfunded debt		640
Guaranteed $2\frac{3}{4}$ per cent. land stock, $2\frac{3}{4}$ and 3 per cent. stocks, and local loans stock		1,861
India Government stocks and loans		5,182
Indian Guaranteed railways		4,525
Colonial Government funds		16,107
Foreign Government funds		11,660
Total gross income		51,168
Deductions :—		
Income not exceeding £160		1,256
Charities, friendly societies, etc.		901
Foreign dividends belonging to foreign residents		1,235
Other allowances, reductions, and discharges		1
Abatements, £160, £150, and £70		2,262
Life insurance premiums		82
Relief in respect of children		23
Total deductions		5,759
Income on which tax was received		45,409

The **gross income assessed** represents the sums actually charged in the first instance with the tax. The interest of Government holdings, and of certain official charitable funds, etc., which amounted to about £15,800,000 in 1911-12, is not included, being specifically exempt from charge.¹ This

¹ 56th Report, p. 106. An analysis of the "exemptions" amongst the several classes of stock was given for 1898-9, 43rd Report, p. 138, and similarly for 1899-1900.

amount represents the rough difference between the gross sum charged and the gross interest *paid* under the various heads. Small dividends under £5 per annum are paid in full, and are not assessed under this schedule at all. Any such sums payable to persons who are liable to tax should be returned by them for assessment as "untaxed interest" under Sch. D.¹ Then, in many cases where the recipients are exempt and have proved their title, record is made by the payers and the payments are made in full without assessment under Sch. C.² The gross assessment is partly *net*, after excluding both these classes of payment. By no means *all* exemptions are excluded, however, and under the "deductions" appear those items upon which repayment is claimed. It is clear, therefore, that the "gross income assessed" is an artificial, or administrative, figure, without any statistical significance; it is necessary to subtract the four first-named deductions to obtain a figure that has any real value. The only thing to be said about it is that the sub-classifications in the succeeding tables all analyse this total, so that it cannot be wholly disregarded if these details are being studied.

DEDUCTIONS.—(a) **Income not exceeding £160.**—This, as already explained, covers the income in respect of which repayment is claimed. It forms only a *part* of the whole class of such income for Sch. C.

(b) **Charities, Friendly Societies, etc.**—This also forms only a part of the whole of Sch. C income belonging to charitable bodies, some of it not being charged at all, and excluded from "gross income."

¹ *Vide* p. 170.

² In 1852-3 a special return (H. C. 95—1852-3) was given classifying the exemptions for dividends from Public Funds:—

						Persons.
Dividends under	£5	.	.	.	.	51,816
"	£5 to £25	.	.	.	.	19,871
"	£25 to £50	.	.	.	.	9,601
"	£50 to £100	.	.	.	.	5,194
"	£100 to £150	.	.	.	.	1,036
Total						87,518

Details of holders of the public debt, arranged in ten classes, for 1831 and 1848, may be found in *S. J.*, 1851, p. 195.

(c) **Foreign Dividends belonging to Foreign Residents.**—This appears separately for 1911–12; formerly it was included in “Other Deductions.” It represents income from abroad which is paid *viâ* London to foreigners living abroad, and which is therefore only accidentally or nominally brought within the purview of the tax, and such “re-exports” are equitably entitled to exclusion from charge.

(d) **Other Allowances, Reductions and Discharges.**—Upon the elimination of (c) this item is insignificant.

(e), (f), (g) **Abatements, Life Insurance Premiums, and Relief in respect of Children.**—These *personal* deductions need no comment.¹ They are made upon repayment claims.

Division of Gross Income into Countries of Origin.

Since 1872 a table has been given showing the amounts of dividends and annuities charged in respect of the several countries to which they relate. This is useful as showing the relative importance of different countries of investment, although it must be remembered that Sch. C is by no means exhaustive and overlaps to some extent with “coupons” and foreign securities assessed under Sch. D.² Still, these details of Sch. C do represent with fair accuracy the relative importance of Government securities in British foreign investment.

A further table shows in a condensed form these particulars over a series of years. British funds (owing to reductions in the National Debt, etc.) show a considerable diminution. Indian, European, African, and American securities have changed to a slight extent only, but colonial and Asiatic investments have greatly increased.

These particulars, excluding the British figures, form part of the details discussed under “Income from Abroad so far as it is Identified.”³

THE SEQUENCE OF STATISTICS UNDER SCH. C.

The disturbances have been relatively slight. For many

¹ *Vide* p. 295, etc.

² *Vide* p. 227.

³ *Vide* p. 230.

years, down to 1899 in fact, the figures were presented separately for England, Scotland, and Ireland, Scotland being "*nil*" on every occasion. This division represented administrative methods of assessment, and had no other significance whatever. It simply meant that all the Scottish payments were assessed in London, and a few Irish payments, through the Bank of Ireland, were assessed in Dublin.

" Danger of relying on the mere figures in income tax returns . . . a striking instance afforded in a return printed by the House of Commons in June, 1868 . . . which purports to show the proportion of taxation to the wealth of the country in England and Ireland respectively, the amount assessed to income tax is taken as a measure of wealth in both cases. . . .

" On Sch. C, when we come to consider it, still less reliance can be placed as a common measure of value. . . . For it represents the dividends at Banks of England and Ireland respectively, and the dividends payable in the United Kingdom out of all foreign and colonial revenues. The amount assessed in England is £32,500,000, in Ireland £1,115,000. Not only, therefore, is there placed to the account of England alone all the investments of Scotland, Ireland, the colonies, and foreigners in our own public funds, but also all the investments of the Irish, among others, in such securities as Indian stock, Canadian bonds, French rentes, Danish, Dutch, Russian, Turkish and other stocks of all foreign Governments " (12th Report, p. 25).

1842-3 to 1852-3 (see 13th Report).—A slight difference appears between "gross" and "net": it is the latter which must be noticed, and which corresponds with the present "gross income." The amount of duty "charged" is of course in excess of the true net revenue, because repayments upon exemptions and other deductions have to be allowed for. The annual parliamentary returns gave duty collected.

1853-4 onwards.—Ireland is included in the grand total.¹

¹ The statistics at this point are deceptive. Where is the increase (for England) that would be expected upon the reduction of the exemption limit from £150 to £100? It is masked by a transfer to the "Ireland" column. Reference to the Parliamentary Returns 341 of 1854 and 482 of 1855 will show that payments through the Bank of Ireland, which, prior to 1853, were included under England, are transferred to "Ireland" after that date,

1855-6.—The parliamentary returns come exactly into line with the 13th Report, and agree thereafter.

1872-3.—Classified tables of origin in the present form were first rendered (and shown for 1872-3, 1876-7, 1880-1, and 1883-4 in the 28th Report, which reprints and revises several parliamentary returns).

It should be noted that Sch. C at these dates includes Metropolitan Consolidated stocks and Corporation stocks¹ :—

	£		£
1872-3 . . .	204,527	1884-5 . . .	1,186,582
1876-7 . . .	363,529	1885-6 . . .	1,201,161
1877-8 . . .	392,035	1886-7 . . .	1,383,776
1878-9 . . .	477,718	1887-8 . . .	1,414,319
1879-80 . . .	520,279	1888-9 . . .	1,470,640
1880-1 . . .	593,349	1889-90 . . .	1,454,958
1881-2 . . .	801,803	1890-1 . . .	1,472,851
1882-3 . . .	966,130	1891-2 . . .	1,405,713
1883-4 . . .	1,068,655	1892-3 . . .	1,618,417

1876-7.—The exemption limit was raised from £100 to £150 in this year. “The falling off may be attributed partly to diminished payments on account of dividends of foreign funds, and partly to the extension of exemptions and abatements; . . . we are without any knowledge of how much of the general decrease is attributable to the latter cause alone” (20th Report, p. 51).

The official description of the statistics in 1878-9 was :—
 “The figures represent neither a true gross nor true net, but are more the latter than the former. The sums returned by the Bank of England and by other paying agents do not include dividends not amounting to 50s. half-yearly, or dividends which are not assessed on account of belonging to charities or to persons who are entitled to exemption; neither do they include investments by the National Debt

¹ A footnote on p. 55 of the 38th Report explains that “it has been deemed expedient to record all Assessments on Interest of Municipal and Corporation Stocks and Loans under Sch. D, instead of partly under Sch. C and partly under Sch. D.” These sums have accordingly been transferred to Sch. D in Table D1.

Commissioners on account of savings bank moneys" (*ibid.*, p. 35).

1885-6.—There was a slight decrease in the sums assigned to this schedule owing to the fact that all tax recovered from *coupons* was classed under Sch. D from that year.

1887-8, 1888-9 and 1889-1890.—The figures for the funded debt were distributed owing to the reduction of the rate of interest. A fifth quarterly dividend was paid in 1887-8.

1903-4.—The reduction in the rate of interest on Consols and the decisions in the case of *Scoble and Others v. The Secretary of State for India* had a marked effect upon the assessments.

Mr. W. R. Lawson quotes the gross and net for 1900-1 in comparison with 1891-2, and says "clearly the British investor is not extending his operations very rapidly in foreign or colonial securities" ("Two Record Budgets, 1860 and 1903," in *Fortnightly Review*, May, 1903).

PARLIAMENTARY RETURNS CONTAINING ADDITIONAL DETAILS.

H. C. 253—1842. Sch. C: total dividends from which tax was deducted, and the number of accounts.

H. C. 170—1847. Bank of Ireland annuities to persons not resident in Ireland: five years, 1842-3 to 1846-7.

H. C. 209—1874. Details by counties: total £40,373,696. (Similar returns at intervals subsequently.)

CHAPTER VI.

SCHEDULE D. PROFITS OF BUSINESS, ETC.

DEFINITION AND SCOPE.

THE assessments under Sch. D cover incomes from (1) business—"trade, manufacture, adventure, or concern"; (2) professions, employments, and vocations; (3) miscellaneous profits, small sums of interest not taxed by deduction under Sch. C, profits of cattle dealers and milk-sellers; (4) foreign and colonial securities, except those charged under Sch. C; (5) foreign and colonial possessions; (6) any annual profits or gains not falling under any other rule or schedule.

These six "cases" of Sch. D are charged under different rules and with different bases, which must be briefly referred to.¹

I. **Ordinary trades** are assessable upon the three preceding years' average, new businesses being taken upon the period of trading available. Until 1907 the average was subject to adjustment upon ascertained results of the year of assessment if the profits had been reduced. The Income Tax Committee of 1905 reported against this very one-sided provision, but it has recently been revived as a method for giving relief where profits have been reduced owing to the war.² There are special provisions for adjusting the assessments on businesses which have recently started or which have come to an end, so that the actual profits of each year may be taxed.

Mines, gasworks, etc., originally charged under Sch. A, No. III., retained their respective bases when transferred to the rules of Sch. D.³

¹ A fuller treatment may be found in many legal and practical handbooks.

² Finance Act, 1915.

³ *Vide* p. 212.

The sum assessable is the "full amount of the balance of profits or gains." Where profit is made it is immaterial what is the destination of that profit,¹ charitable or otherwise. If the receipts of a company include dividends and interest taxed by deduction, in excess of the "balance of profits," the former represents the minimum liability, so that although there may be no direct assessment upon investment companies or insurance companies, they are really taxed in excess of their "profit," in the commercial sense.² In cases where it is the *business* of companies to deal in securities, stocks and shares, the profit on such transactions is assessable, but for ordinary concerns such dealings are "capital" transactions and not chargeable. Speaking generally, isolated transactions, in sales of shares or property, are not "annual" profits and are therefore not chargeable.

With regard to trade carried on abroad by British residents and companies, the following general rules apply, although there are many difficult legal points involved. Where a person resident in the United Kingdom has profits from a trade carried on entirely elsewhere they are not assessable until received here by the person entitled to them, and are then charged as foreign possessions (fifth case).³ A company registered here and having operations and branches abroad is chargeable on the whole of its profits under case 1 if the head and seat of the direction and control are situated in the United Kingdom,⁴ and it is clear that many cases of what are regarded as investment of money abroad, in foreign mines, American breweries, etc., are fully assessed under this case, although they do not *appear* as foreign businesses in the statistics.⁵ But where a British company holds shares in a company abroad, even to a preponderating

¹ *Mersey Docks v. Lucas*, 2 T. C. 25; *Paddington Burial Board v. Commrs. of I. R.*, 2 T. C. 46; *Religious Tract Soc. v. Forbes*, 3 T. C. 415, etc.

² *Clerical, Medical, and General Life Ass. Soc. v. Carter*, 2 T. C. 437.

³ *Colquhoun v. Brooks*, 2 T. C. 490.

⁴ *Calcutta Jute Mills v. Nicholson*, 1 T. C. 83, and many subsequent cases.

⁵ *Vide* p. 231.

extent, the control is not always adequate to make the British company liable on the *whole* of the profits of the foreign company.¹

As regards trade carried on in the United Kingdom by foreign residents and companies, there is also an imposing case law. Generally speaking, "branches" here are chargeable on the profits made here, and where orders are given to agents here, and payment or delivery is made here, the trade is held to be exercised²; but if contracts are made abroad and deliveries take place abroad, it is not.³

Any person *resident* in the United Kingdom is chargeable for income under all six cases, but non-residents are chargeable only for property *in* the United Kingdom, or for trade profits made in the United Kingdom. "Domicile" has little to do with the residence test, which is often a nice legal question. Generally a company registered here is also resident.

In estimating the balance of profits certain deductions are specified as not allowable, *viz.* :—

(1) Cost of repairs in excess of the usual expenditure according to the average ;

(2) Losses not connected with or arising out of the trade ;

(3) Capital withdrawn, or capital invested, or employed in improvements ;

(4) Interest charges on the owners' capital ;

(5) Average losses beyond the actual loss after adjustment ;

(6) Annual interest, annuities, patent and other royalties.

Deduction is allowed for :—

(1) Any income subject to deduction of tax on receipt ;

(2) The value of premises owned by the trader and assessed under Sch. A, the deduction being the amount of the net Sch. A assessment if the building is wholly devoted to the trade ; if it is also a residence for the trader, a proportion up to two-thirds is allowable ;

¹ *Kodak, Ltd. v. Clark*, 4 T. C. 549, etc.

² *Tischler & Co. v. Aphorpe*, 2 T. C. 89, etc.

³ *Grainger v. Gough*, 3 T. C. 462. *Vide* also debates on the Finance Bill, November, 1915.

(3) Depreciation or "wear and tear" is *not* allowed as a deduction but is given as an *allowance* from the assessment ;

(4) Bad debts, and doubtful debts upon a valuation.

Until recently no deductions were allowed from the profits of brewers for expenses connected with tied houses. No deduction is allowed for depreciation of leases or goodwill, cost of pit-sinking, preliminary expenses, or expenses of issuing debentures.

II. **Professions, employments, and vocations** were at first chargeable on the profits of the preceding year, but in 1853 the three years' average was substituted, and the rules generally are similar to those in the first case.

III. Profits of an uncertain annual value, on the basis of the preceding year ; profits of cattle dealers and sellers of milk (where the occupation of lands does not suffice for the keep and sustenance of the cattle), on the average of three years.

IV. Interest on **foreign and colonial securities** is chargeable on the full amount received in the year of assessment.

V. **Foreign and colonial possessions are chargeable** on the amount received or imported on the average of three years.

There has been much litigation on the subject of "constructive" remittances, where the interest has not been received *in forma specifica*, and also as to whether in particular cases the business was controlled from the United Kingdom and assessable under case I. on the whole profits regardless of remittance, or whether it should be regarded as a foreign possession. In general it may be said that income allowed to "pile up abroad" has legally evaded taxation. The Finance Act, 1914, however, has altered the basis of charge in the case of stocks, shares, and rents from actual remittances to the amount *arising* abroad, but the altered liability has not yet affected the statistics.

VI. This is the "sweeping" case, designed to gather up any annual profits or gains not clearly charged by virtue of other clauses. Any convenient average may be adopted. Such items as profits from letting apartments or furnished houses may be brought under this head.

Other "charging" sections relate to interest payable on the security of the rates, and interest not payable out of

profits and gains (*e.g.*, during a period of railway construction) ; both these are liable as and when paid.

THE RELATION BETWEEN ASSESSED PROFIT AND COMMERCIAL PROFIT.

The uniform assessment of trade profits is only possible with a set of well-defined rules of strictly formal character, for any attempt to leave assessment to individual judgment as to what is fair and just would lead to great differences of practice from time to time and from place to place, and might also favour this class of income in comparison with the classes assessed under other schedules of the tax.¹ The present statutory rules of Sch. D are not exactly what would commend themselves to a modern business community engaged in framing an income tax upon profits. In part they are relics of 1799 and 1806, when many branches of modern commerce were in their infancy, or unknown ; such, for example, are the strange differences in averages of years for the basis of assessment. In part they are due to the introduction of the tax in 1842 as a temporary impost and its maintenance for so long on a temporary footing : such are its deficiencies in the "long view" of what constitutes profit, and its failure to deal adequately with the depreciation of durable assets. It came before the real development of accountancy, life insurance, and limited liability companies : hence its failure to deal specifically with necessary reserves for unexpired risks, or to allow for "preliminary expenses." The changes in industry combined with the establishment of the tax upon a permanent footing have alone sufficed to throw its statutory regulations out of line with *commercial* facts. The treatment of the "tied house expenses" of brewers is an instance of the former,²

¹ "It is not possible to admit the proposition that . . . we ought habitually to follow the same lines as those on which the owner of the business estimates his profits."—SIR HENRY PRIMROSE (Cd. 2576, p. 11). He also remarked "a very large number of people pay now in excess of their true incomes" (Answer 114).

² Recently altered under a House of Lords decision (*Usher's Brewery*, 6 T. C. 399).

and the taxation of terminable annuities illustrates the latter.¹

In some cases remedy or improvement is obvious, but the disturbing effects incidental to any change are a real obstacle, as in the proposed abolition of the three years' average.²

Some of these statutory limitations tend to make assessed profits exceed true profits, while others tend to make them less. In the same way differences might arise through the inevitable inability of the administrative or human factor to attain on all occasions to the letter of the law; any administrative inadequacy would tend to make assessed profits less than true profits, while the ignorance or apathy of the public in regard to its right of claim for deductions and allowances that would be readily granted if brought to the notice of the officials concerned would tend to make assessed profits exceed true profits. These various considerations must receive separate and detailed treatment. Few reasoned attempts have been made to gauge their net effect for statistical purposes. Perhaps the most important is that by F. Ireson,³ and he concludes with the just remarks:—

“Some writers on economics, evidently with no practical knowledge of accountancy, have assumed as a matter of course that the official statistics form a true record, in no way exaggerated, of the income actually received by payers of income tax. This assumption has been shown to be incorrect. It will be understood, of course, that what is challenged is not the textual accuracy of these statistics, but the popular use of them for a purpose for which they were never intended. They do not agree, and were never meant to agree, with ordinary accountancy results, and in certain respects it is quite proper that they should not so agree.”⁴

Ireson and other writers, by a superficial enumeration of apparent differences, present a formidable case against the “assessed profits” as a correct representation of “real

¹ *Vide* my article “Economic Aspects of Income Tax Change,” *Economic Review*, October, 1909.

² *Vide* Income Tax Committee's Report, 1905.

³ “The People's Progress,” Chap. XI.

⁴ *Op. cit.*, p. 58. See also Sir T. Whittaker's criticism, “Taxation and Ownership of Land.”

profits." Upon a careful examination the greater part of the supposed difference, for statistical uses, will be found to disappear, and it is desirable to ascertain, with greater exactness than has hitherto been attempted, the true measure or limits of the discrepancy between the respective aggregates. The comments made in this inquiry refer in no way to the *propriety* of making allowances, which shall adjust burdens as between individuals, or adjust profits differently over a period of years: they relate solely to the question of the *statistical equality of the two kinds of aggregates*.

STATUTORY DIFFERENCES.

I. THE TIME ELEMENT.—Except in the case of profits arising from businesses set up during the year of assessment, of certain interest secured on rates or paid out of capital, and of interest arising from securities abroad, all sources of income charged under Sch. D are based on results *preceding* the year of assessment. Hence the assessments *for* any year have no claim to represent the profits *of* that year.

The average of the three preceding years predominates, but mines are assessed on a five years' average, while railways, waterworks, gasworks, and similar concerns are assessed on the preceding year's profits.¹ The average has a very steadying influence, and helps to mask the actual fluctuations of industry. In view of the general tendency to increase, however, it clearly is for the most part in favour of the taxpayer, and causes the assessed profits to lag behind the true profits. To what extent? If a , b , c , and d represent four successive years' profits, steadily increasing, then the assessed profits for year D are $\frac{a + b + c}{3}$, and for the next

year E are $\frac{b + c + d}{3}$, from which the difference between

D and E, a known amount which may be termed Y , is $\frac{d - a}{3}$.

If x is the annual increase, $d = a + 3x$, and $Y = \frac{a + 3x - a}{3} = x$,

¹ *Vide* p. 225.

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i.e., the difference between actual years is on the average the same as the difference between assessments each year, or rather more in prosperous times, and rather less in times of depression. This result is of course obvious after a little consideration. The profits for 1908-9, for example, are made up of actual results as follows :—Mines, five years' average, years 1902 to 1907 (middle year 1905) ; railways, quarries, gasworks, etc., year 1907 ; general business, three years' average, 1905, 1906, and 1907 (middle year 1906) ; while some interest and much income from abroad is assessed on the amount in 1908-9 itself. *On a steadily progressing assessment* a uniform three years' average would mean that the assessed profits of 1908-9 were the same as the actual profits of 1906-7, but these differences in averages advance the period of actual profits by about four months, *i.e.*, the assessment of profits for the year ending 5th April, 1909, might be taken to be actual profits for the year to the middle of August, 1907.¹ (On steadily *decreasing* income there would be a corresponding retardation, and they would equal the actual profits for the year to the middle of December, 1906.) But here there is the assumption that the " preceding year," etc., for every concern is up to 31st March, whereas in fact the majority of businesses make up their accounts to other dates. Rather less than one-half make up accounts to 31st December, perhaps three-tenths to 31st March, and the remainder to various dates preceding December, averaging about 30th August, the net effect being to put back the terms " preceding year," etc., by about one-fifth of a year.² This correction, for the purpose in hand, means that

¹ If the assessed profits for the year = x , and the annual increase is a , the actual profits of the preceding year = $x + a$, two years preceding = x , and three years preceding = $x - a$. On the 1908-9 proportions :—

Five-year concerns are $\frac{17}{88}$ of whole, and	= $(x - a) \frac{17}{88}$;
Previous year's concerns are $\frac{9}{88}$ of whole, and	= $(x + a) \frac{9}{88}$;
Actual year's concerns are $\frac{9}{88}$ of whole, and	= $(x + 2a) \frac{9}{88}$;
Three-year concerns are $\frac{1}{88}$ of whole, and	= $x \times \frac{1}{88}$;

and the whole assessed profits for the year = $x + \frac{1}{88}a$, or a third of a year after the middle year.

² These proportions have been adopted as the result of a number of samples taken from different parts of England. Introducing the fraction into the foregoing computation, we get the result that the

the assessed profits for the year ending 5th April, 1909, may be taken to be actual profits for the year to the beginning of June, 1907, in times of normal and regular increase.

"The amount stated for the year 1911-12 corresponds to the actual total of 1910 or 1909."—DR. BOWLEY, *Quarterly Journal of Economics*, February, 1914.

By the above computation it may be stated more precisely as the year to June, 1910.

2. "WEAR AND TEAR" OR DEPRECIATION OF MACHINERY AND PLANT.—It is entirely owing to the peculiar legal origin of this allowance that it has so distinctive, and sometimes misleading, a position in the statistics. In 1876 the Glasgow Chamber of Commerce approached the Treasury upon the subject, and were for the moment satisfied with the explanations then given "as to the case being met by the allowances made for the actual outlay on account of repairs and renewals" upon the average.¹ In 1877 an amendment in the House of Commons to allow a deduction for "depreciation of implements" was negatived on a division. After further representations had been made the Board of Inland Revenue issued a circular to the District Commissioners premising that "the suggestion for altering the law must have arisen from the provisions of the Tax Acts not being clearly understood," and stating that the words of the 1842 Act, "any sum expended for the repairs of premises and the supply or repair or alterations of any implements, utensils, or articles for the purpose of any trade, etc.," should be construed liberally, so as to comprehend the full amounts actually expended, not for repairs only, but also for renewals or replacements of plant and machinery; "and . . . if, in addition, depreciation were allowed by a percentage, there would in that case obviously be a double allowance."

In the following year, however, the deduction for wear and tear was sanctioned by law.² It was to be an allowance, not

whole assessed profits for the year = $x + \cdot 16a$, or two months after the end of the middle year.

¹ 20th Report, p. 54. *Vide* also S. C. on Income Tax, 1852, Qs. 2,475, 3,673, 6,983, etc.

² 41 Vict. c. 15, s. 12.

upon the three years' average like an ordinary business expense charged in the accounts, but for the wear and tear during the year of assessment itself specially claimed for and allowed by the Commissioners. It was therefore an allowance *after* the gross assessment had been arrived at, and appears as such in all the statistics. It must not be imagined, however, that it was an entirely *additional* allowance, for where "depreciation" is allowed upon any given machinery and plant no renewals are allowed as a trade expense; they are treated as added to capital. In the long run, therefore, in sustained business, there is no great difference between the total sums allowed, and it is roughly true that the "gross assessment minus wear and tear allowance" after 1878 corresponds with the "gross assessment" before 1878, since deductions for renewals were made before arriving at the gross assessment in the latter case. Although the practice of treating this matter by way of depreciation has grown very much of late years, there are still considerable areas of industry in which the case is best met by allowing "renewals and repairs."

"Cost of upkeep. . . . In the year 1910 the allowances amounted to £67,000,000. . . . The various forms of capital requiring such expenditure for their maintenance are, in the Census of Production, dealt with one by one, and the actual cost of upkeep, including renewals, is given as exceeding the allowances by at least £100,000,000. This excess must therefore be added to the official deductions, and the true net total of incomes subject to income tax will have been in the year 1910, not £820,000,000, but about £720,000,000." — W. H. MALLOCK, "Social Reform," p. 120, and in greater detail, p. 155.

Here the writer is evidently unaware of the fact that repairs, renewals, and replacements are charged as business expenses before the assessments are computed (*vide* review in *S. J.*, May, 1914), and he also ignores the fact that the census figures include the concerns which are exempt from income tax.

Two methods of obtaining a comparable series of figures are available—first, to deduct the sums allowed each year since 1878 from the gross assessment; second and conversely, to add to the gross figures for years prior to 1878 an

estimate of the corresponding depreciation allowances. The former at first sight appears preferable, because it avoids the use of estimates. But the legislation of 1907 has introduced such changes that the balance of advantage is now with the second method. For the allowances to which full effect cannot be given in lean years, when gross assessments are low, may be accumulated and carried forward, to be given effect when profits are high. This is especially important in the textile and shipping industries.¹ The effect is that the amount shown for "wear and tear" in any year may be far less than, or far more than, the true wear and tear for that year, and a system of deducting it from the gross assessment would not give a true view of gross profits, for the aggregate in good years would be unduly depressed by a large deduction and the aggregate in poor years would come out too high in proportion. So the best comparative series is obtained by using the existing gross assessments from 1879 to date (unaltered by the change in 1907) and adding to the figures prior to 1878 an estimate of the "wear and tear" that would have been applicable in that period. The 25th Report (p. 68) said:—"For purposes of comparison about £450,000 should be added to Sch. D, 1879-80, in respect of sums allowed for wear and tear of machinery, prior to the amount of gross assessments being ascertained." The actual sum appearing in the 1879-80 tables was £499,138—making £950,000 in all for that year. The proportion £950,000 bears to the gross assessment minus £499,138, *i.e.*, to £248,990,000, is taken for computing the sum to be added to the Sch. D gross assessments in previous years (Table D1). It is considered that this is more in accordance with the actual facts of the case than to take the higher proportions of later years. The *net* assessments remain unchanged by the factor of wear and tear throughout.

It is obvious that the full wear and tear allowances should be deducted from the gross assessments in order to get profits which are comparable with commercial figures. The

¹ The peculiar and privileged position now given to wear and tear allowances is dealt with in my article "Wasting Assets and Income Tax," *Economic Journal*, March, 1910.

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question of *inadequate* allowances for wear and tear is referred to later.

3. TREATMENT OF LOSSES—CAPITAL AND REVENUE.—

It is commonly stated that the Sch. D figures are greatly in excess of true profits, because an adequate allowance is not made for losses. There is considerable truth in this, but also much confusion of thought. It is necessary first to distinguish between “trading losses” in the year and “capital losses” :—

“ . . . Official statistics are . . . misleading, because they do not recognise any loss of capital which has been suffered by the taxpayer. Losses from bad investment, or from unsuccessful trading, in so far as they result in the exhaustion of capital, are also ignored. Assume, for example, that I invest the sum of £1,000 equally in ten different companies. In the first year nine of these pay me dividends at the rate of 5 per cent., while the tenth company goes so hopelessly wrong that my investment in it must be treated as totally lost. Thus for the year I receive £45 in dividends, and lose £100 of capital, the actual result to me being a loss of £55. Nevertheless, income tax on £45 has to be paid, and in the official figures I appear as having made in that year an income, *i.e.*, a profit of £45. It is no exaggeration to say that the example just given is representative of thousands of others occurring every year. All around us, in every trade, capital is being destroyed in various unsuccessful ventures, yet no notice whatever of such destruction is taken by the Revenue authorities and there is absolutely no record of it kept by them. When there is a profit it is sought out, assessed, and taxed, but when there is a loss of capital the income tax officials pass it by as if it had never occurred. No one would accept as reliable the statistics of a general who published the achievements of those of his soldiers who survived, but suppressed all mention of those who were killed. Every one would agree that such a record was misleading. For a precisely similar reason the income tax returns are misleading, for they include only the profit of successful ventures, and suppress all mention of those which destroy capital when they fail or die.”—IRESON, “The People’s Progress, pp. 54-55.

There is much truth in the contention, but it is perhaps not a very exact method of stating it. The “income” of the year should stand apart, surely, from *capital* losses. No one would say of a man who had £500 a year from

property, and who lost a house worth £1,000 by fire, that in that year he had no "income." Now, nearly all *sudden* losses of this kind are insurable, and since insurance premiums of all kinds are allowed as expenses in trading accounts, the aggregate of such losses is allowed for in the tax statistics. Losses which are not sudden, however, are spread over a series of years and become *capital* losses, as an aggregation of trading losses in successive years. For example, a trader has premises worth £1,000 and floating capital also £1,000; he loses £100 per annum in trading for ten years, and eventually his assets pass into the hands of another. (But of course, the non-success of the premises may have lowered their letting and selling value.) Even if he retains the £1,000 for fixed capital he has "lost" the second £1,000, but it may have been fully allowed for in income tax assessments.

It remains to examine, therefore, how far trading losses fail to be represented in assessed profits. Losses are allowed as follows:—

(1) Where two businesses, etc., belong to one person, the losses in one can be set off against the profits of the other.¹

(2) Where losses alternate with profits for the same business, they are to a considerable extent worked off by the system of averages for assessment.

(3) Duty on losses may be repaid to the extent that duty has been borne on other sources of income. For example, a man having £1,000 from investments and losing £400 in business can be repaid upon £400, so that, in the year, he pays tax actually on £600, his net income.²

(4) Losses in speculation by ordinary individuals may in a large measure be ignored, because gains are to an equal extent omitted from assessed profits. They are usually assessed only where speculation is a *business*. Similarly, company promoting is a profession assessable on the balance of profits and gains.

Company Promoters.—"Take two men, A. and B., each possessing capital to the amount of £40,000 and incomes of £2,000. The

¹ 5 & 6 Vict. c. 35, s. 101.

² 53 & 54 Vict. c. 8, s. 23.

tax payable on this amount would, at 1s. in the £, be £200. Let us suppose that A. loses in one year £5,000, which B. gains, an incident quite possible under the tricks of latter-day company law. The income of A. will thus become reduced by, say, 5 per cent. on £5,000, which will make it £1,750, on which the tax would be £87 10s. B.'s income will be £2,000 plus £5,000, making a total of £7,000; tax, £350. Thus it is evident income tax is being paid on capital . . . and in so doing has swelled the income tax."

—G. BYNG, "Protection," 1901, p. 108.

This assertion has only a limited measure of truth; it assumes that the operation which is assessable as profit is not equally, on the converse, allowable by way of set-off as a loss, under (1), (2), or (3), above.

(5) Depreciation and appreciation of securities are ignored for all businesses which are merely investing, and not trading, in stocks. Where one is taken into account, so equally is the other.

But when all allowances are made it is true that continuous trading losses are often not represented at all in the aggregated tax assessments, and it depends upon the use that is being made of the figures how far this is really significant. If the income saved in a year over and above expenditure is being added to the existing stock of capital, it is obviously necessary to deduct the capital values which have vanished before the new sum total of capital can be given. But the deduction should rather be against the old stock of capital brought forward than the new addition. In the illustration given above,¹ if the man in question had been putting by £100 per annum we should rather deduct this £1,000 loss from his old capital than say he had ceased to put by and had exceeded his income by £900! So that when the total income for the year is stated it is not necessary to deduct the full capital that has disappeared in the year; this may rather be set against past income *saved*, as unsuccessful saving. Nevertheless, in a long view of the matter, for some considerations, it may be well to ascertain the average annual disappearance of capital and deduct it from average annual income, *but only in so far as* the component annual

¹ P. 181.

trading losses have not been allowed already against income as indicated above.

" Obviously it is impossible to compute with any accuracy what capital is destroyed each year, but some idea as to its magnitude may be obtained from the following figures (Stock Exchange Official Intelligence, 1907, p. 1,853) :—

" The number of companies registered in the United Kingdom from 1862 to 1906 was 101,019, with an aggregate nominal capital of £6,779,998,495.

	£
Taking these to be the same on an average as those now existing, the paid-up capital has amounted to	4,936,697,511
The number of companies existing in the United Kingdom in 1906 was 40,995, with a paid-up capital averaging £48,869 and aggregating	2,003,392,001
A deduction of the latter figures from the former shows that in the years between 1862 and 1906 no less than 60,024 companies were liquidated or removed from the register, their paid-up capital being	2,933,305,510

" If one-third of the last-named amount be deducted as representing vendors' shares issued as fully paid, and if the capital returned to the shareholders be set against the losses sustained by creditors, it follows that since 1862 the loss sustained by British investors by the extinction of these 60,024 companies had averaged over £44,000,000 per annum."—IRESON, *op. cit.*, p. 55.

Sir L. Chiozza Money uses similar figures, but subtracts the £2,003,000,000 of existing paid-up capital from the £6,780,000,000 of *nominal* capital, and finds, therefore, that 60,020 companies with £4,778,000,000 capital have "disappeared" in forty-four years (*Cassell's Magazine*, February, 1909; also *Socialist Review*, "The Waste of Capital," July, 1908). In "The Nation's Wealth" the "loss" from 1862 to 1911 is shown as £5,200,000,000. "We cannot tell what part of the £7,500,000,000 was the expression of real saving and not the mere creation of paper, but when every allowance is made for nominal registration the disappearance of over two-thirds of the sum registered must stand for an enormous wastage" (p. 143).

Mr. W. H. Mallock also adopts a similar plan.

This method makes no allowance for *reconstruction*. The same *concern* may be registered and re-registered, appearing

several times in the top line, and only *once* in the sum subtracted. Such absorptions and reconstructions would amount in the aggregate to a large figure, while many of the losses have been accumulated losses in *bonâ fide* trade which have to some extent been set off (in income tax statistics) against other profits. Many losses, moreover, do not deserve to rank as deductions from trade profits at all; they have never entered the category of trading, for the savings might just as usefully have been dropped into the sea. They could with equal justice be called bad *spending*.

If A., with more money than sense, spends £2,000 of his income in building a yacht to yield him a pleasure income, and does it so badly that he gets no such pleasure income, and the yacht is useless, it figures nowhere as a loss of capital; it is badly spent income. But if B. similarly builds a fishing vessel to bring him in an income from fish, and does it so badly that it altogether fails of its purpose, it is at once called a "loss of capital," although it is barely distinguishable from the other case. There is no doubt, however, that it is generally convenient to regard as a loss of "capital" expenditure on capital goods destined for further production, which have to be abandoned as useless, for specific labour and material embodied therein have been cancelled. But it is otherwise with "capital" spent for immaterial goods. Suppose that a business exists for ten years, making £500 per annum for the first five years, and nothing each year thereafter, being finally abandoned. The income represented in the national total would be £2,500 over the whole period. Now suppose that at the end of the fifth year the proprietor, A., had sold it at five years' purchase for £2,500, B., as a limited company, taking the money out of the bank and A. immediately redepositing it. For simplicity it is assumed there is no fixed capital in a physical sense. At the end of the tenth year the capital is gone and the company is wound up. The suggestion is made that we ought to deduct from the realised profits this loss of capital, in which case the total appearing in the national aggregate would be "*nil*," which is contrary to the facts. The fallacy lies in regarding as "capital," for this question, any payments

made for mere *rights in future profits*. Obviously a very large part of the subscribed capital of companies is of this character, and, the recipient of the purchase-money not having been assessed to income tax on the payment, the deduction of the "loss" of the thing purchased from income tax profits leads logically to quite absurd results when the national aggregate of profit over a period of years is under consideration.

On the general question of the value of these figures as showing the real amount of capital lost the evidence of Sir J. S. Purcell, Registrar of Joint Stock Companies, before the R. C. on Depression of Trade and Industry, 1886, is notable. In 1883, out of 1,440 companies registered in London with a nominal share capital of £143,000,000, 430 did not proceed beyond mere registration, pointing to the fact that the capital was never subscribed. A paid-up capital of £32,000,000 survived. By the subtraction method, 1856 to 1886, 64 per cent. seemed unsuccessful, but many defunct companies were re-registered, and the true proportion would be nearer 50 per cent. (Q. 671).

"The capital owned privately is far greater than that owned by companies, but there are no statistics to show how much of it is lost annually. Some idea of this loss may, however, be obtained from the fact that 7,599 people were registered as having failed in 1907, thereby causing to their creditors a loss of £8,380,000, and to themselves probably several times that amount. . . . The total amount of capital destroyed, whereof no record whatever appears in our income tax statistics, can hardly be less than 100 millions annually. . . . Probably the true amount of capital annually lost is considerably more than 100 millions."—IRESON, *op. cit.*, p. 56.

This estimate is, in my judgment, much too high, and I should hesitate to put the amount for which no allowance is made in the statistics which can properly be deducted from the aggregate assessments at higher than £16,000,000 on an average.

4. INTEREST ON INVESTED FUNDS.—"Income tax must be paid upon all annual interest received upon invested funds, no matter whether the business as a whole be profitable or not.

Thus a company employing only part of its capital, which makes a trading loss of £1,200 by its operations for one year, and a profit of £1,000 as interest for that year on its invested funds, would in fact have made a net *loss* of £200, and its profit and loss account would only report that fact to the shareholders. Nevertheless, income tax on £1,000 would have to be paid, and the interest received by this company which it has more than lost would be recorded amongst the Inland Revenue figures as taxed *profit*. This system of taxing interest 'at the source,' as the phrase runs, is severely enforced, and is responsible for much official invention of profits which do not exist."—IRESON, *op. cit.*, p. 52.

Here the operation of the Act of 1890 has again been lost sight of. Taxed dividends are deductible from receipts in arriving at income tax liability, so that the loss would be £1,200, and the whole of the tax on £1,000 dividends can be repaid for the year. Or alternatively the loss of £1,200 would be carried forward into future averages, and thus the effect would be worked off in the long run. Mr. Ireson's example is badly chosen, but it is only right to say that there are circumstances in which the effect he contends for may arise, although it is not really important statistically. The chief case is that of insurance companies, whose taxed investments often considerably exceed their "profits," but in this case it has to be remembered that considerable payments are made to policy-holders which are charged as expenses in arriving at these profits. The policy-holders are allowed the whole premium paid as a deduction from income, although it may be much in excess of the sum actuarially required to cover the death risk, the excess representing pure investment by the company on behalf of the policy-holder. When the repayment of the whole investment is made it is not directly charged to tax, so that the accumulated interest may be regarded as *pro tanto* reduced by the "excess" income tax paid by the company. It does not seem, therefore, that this apparently good example has really much force in the ultimate issue.

5. DEPRECIATION OF LEASEHOLDS.—The fact that large sums are charged in business and trading accounts for the depreciating value of leases (*i.e.*, the exhaustion of capital invested in them), and that such sums are not allowed as

expenses for income tax purposes, *appears* to swell the assessments beyond the commercial profits.

"If A., for example, buys for £700 the last ten years of the lease of a house let at £100 per annum, he puts by £70 each year to replace his capital, and reckons his annual profit at only £30. But the Inland Revenue authorities allow of no such deduction for depreciation, and for each of the ten years make him pay an income tax based upon the full rent of £100 (Cd. 2576, p. 11). Thus, in the official figures his income from this house appears at more than three times the true income he obtains from it! In view of the fact that the houses, factories, etc., in the United Kingdom and their lands are estimated to be worth £2,860,000,000, and that the majority of them are held on lease, it may well be believed that the true income received . . . is much less, in the aggregate, than the total appearing in the official income tax statistics."—IRESON, *op. cit.*, p. 53.

The whole contention, however true of individual trading concerns, is quite erroneous when applied to the aggregated assessments. The subject is not nearly so simple as appears at first sight, and this is hardly the place to dwell upon the question of incidence.¹ Suffice it to say that, so far as Sch. A is concerned, two premises of equal rack rent value are assessed equally, although one may be let on lease at a small annual rent, and the other be freehold or at the full rack rent. But under Sch. D, if the trader (and leaseholder) gave, say, £10,000 for the lease for twenty years, and pays a small annual rent, he recovers tax from that small rent only. At the same time, however, he is entitled to the full annual value Sch. A as a deduction from profits, like the freeholder or rack renter, and the difference in the statistics is *nil*. His real hardship is quite another matter. It is that he cannot get back the balance of Sch. A tax (above the rent) by deduction, neither can he write off against profits the year's proportion of his vanishing £10,000 capital invested. But if the income tax does not allow this £10,000 as a loss to him, *neither does it treat it as a profit to the recipient*, and the statistics are therefore again unaffected.²

¹ It is dealt with in my article "Incidence of Taxation of Leaseholds," *Economic Review*, July, 1911.

² *Vide* "Fines," Sch. A, p. 46.

6. TERMINABLE ANNUITIES.—This is very difficult ground, and the question has been discussed on several occasions and by various committees. It is only necessary to say that the most recent committee found no reason to recommend on grounds of equity that the “capital element” should be disengaged and exempted from tax. Nevertheless, from a statistical point of view, the full taxation of annuities represents the inclusion of something which is not in the ordinary sense income, as an addition to the existing stock of capital, and something which is an artificial manipulation of income *after* it has been produced by industry, and which could be indefinitely multiplied. Any individual can so arrange and draw upon his investments as to create the same “income” effect as an annuity; it simply means he consumes what he has previously saved. But under the annuity method he has ultimately borne tax on a sum greater than his aggregate income, because “savings” are not allowed as a deduction from income.

As a matter of practical statistical importance it is decreasingly significant. Irish rentcharge annuities were divided into capital and interest by statute. By case decision “any annuity which, by the nature of its origin and by the terms of the contract creating it, is manifestly and essentially a method of discharging by instalments, with interest, a debt created by loan or by purchase is also divisible.”¹ In a recent case² a long annuity in discharge of an ascertained capital sum which was the agreed purchase price of a railway was divided. The following statement is, however, far too sweeping:—

“The system is not wholly unjust which exempts from taxation that part of his income which stands for impairment of capital, and assesses taxes on that part which swells capital or savings. The system would be entirely just if the impairment of one capital were always offset by the equal increase of some other capital, *i.e.*, if the taxpayer’s total capital value were kept at the same level. In general large receipts are usually re-invested, and should therefore not be subject to the income tax at all. If we could assume such re-investment to be the invariable rule, we

¹ Income Tax Committee Report, s. 65.

² *Soble v. Secretary of State for India*, 4 T. C. 618.

could approve of the system by which, in England, *a terminable annuity is not taxed as income at its full value*, but is taxed only on that part of it which constitutes 'interest.' The other part, which constitutes impairment of principal, is not taxed. To illustrate the English exemption of impairment of capital . . . the following will be the schedule."—IRVING FISHER, "Capital and Income," 1906, pp. 401 and 402 ; also p. 253.

Purchased annuities for terms of years, also those for life, are still retained in full for taxation. The Government terminable annuities have sunk to little more than £3,500,000, and the life assurance companies pay some £3,000,000, while the National Debt Office and Post Office together pay about £750,000, so that the total is hardly £8,000,000. A very large part would be paid to persons exempt from tax, say one-third, and this leaves £5,000,000 paid to liable persons. In the average proportion of two-thirds capital the statistical effect is to swell the assessments by about £3,000,000 annually.

7. EXPIRY OF COPYRIGHTS AND PATENT RIGHTS.—"These expenses are all treated commercially as losses, but their deduction from gross profits is not permitted by the Inland Revenue."—IRESON, *op. cit.*, p. 53.

The manner in which these assets are treated is fully described in Appendix II. to the Report of the Income Tax Committee, 1905, and in the Report, ss. 43 to 55. In the case of copyrights the author is charged on his receipts, while the publisher is allowed to charge the cost of ephemeral productions as an expense, and to treat the "copyright of works of a permanent character as stock in trade, of which a valuation must be made at the beginning and end of each year before arriving at the balance of profit for the year." The Committee found that substantial justice was done. It should be clear that no swelling of statistics arises in the case of copyrights.

As regards patent rights the case is rather different. "Royalty" payments obviously cannot wrongly affect the statistics. "Where the user of a patent purchases it outright, the transaction is treated as a capital transaction *on both sides*, and no assessment is made on the original

patentee in respect of the lump sum received by him." If, therefore, an allowance were made in respect of the exhaustion of the patent right, the work of the inventor and the value created by him would not be represented at all in the total. Once again the alleged grievance in individual cases has been wrongly supposed to affect the statistics.

8. BAD AND DOUBTFUL DEBTS.—"Further, no general reserve may be made for doubtful debts, a step invariably taken in proper commercial practice, only such proportion of each one of them as is estimated to be really bad being allowed, for income tax purposes, to be deducted from gross profits."—IRESON, *op. cit.*, p. 53.

Statutory provision exists for allowing an estimate for doubtful debts, and of course all actual bad debts are allowed. Whatever may be the effect on a single assessment in a single year, it is quite a mistake to imagine that the method of dealing with doubtful debts has any effect upon the aggregate assessments in the long run. For in the long run no more and no less than the actual bad debts can really be allowed, and the statistics are certainly not excessive for this reason. In any year, if the figures should be reduced by reason of a commercial reserve for doubtful debts arising in the year, they should *pro tanto* be increased because the actual debts incurred in previous years and allowed as bad in the year in question for tax purposes had been partly anticipated on the commercial plan in previous years.

9. INCOME TAX.—It is sometimes stated that this should be deducted in computing taxable income.¹ It is expressly excluded by statute from the legal deductions, and is to be regarded as a personal, and not a business, charge. It is not seen how any argument can be urged for deducting income tax in determining national income which would not equally apply to local rates or indirect taxation paid out of personal income on personal consumption (as distinguished from the expenses of *obtaining* an income). If businesses were allowed this deduction, salaries would equally have to be

¹ Ireson, *op. cit.*, p. 53.

assessed on the net income left after paying the tax on the assessment! At 1s. in the £ an income of £500 would be assessed on £476 3s.

10. EXPENSES INCURRED BY LIMITED COMPANIES, not allowed for Income Tax Purposes.—These include formation or preliminary expenses, loan issue expenses, premiums on the redemption of debentures, and generally all the expenses of engineering the *capital* of companies. They may be regarded in two lights—(1) as a reduction of the yield or interest upon the shares of all or some of the shareholders; (2) as an increase in the capital cost of the investments (over and above the nominal sum invested), the difference being deducted from subsequent dividends.

From the first point of view the “taxed income” is undoubtedly in excess of true income. From the second each shareholder suffers a small depreciation in the value of his securities, since they are worth less than he has paid for them. I incline to the first view, and regard the assessments as in excess of true income to this extent.

An estimate of these sums is a difficult matter. Probably £1,000,000 per annum is an outside figure.

11. GOODWILL — DEPRECIATION OR REDUCTION.¹—No charges for depreciation of goodwill are allowable for income tax purposes. Goodwill is not necessarily written down because it has disappeared; it may continue to exist in full measure, but many financial experts and accountants regard it as “good policy” or prudent to write off all non-tangible or non-physical assets.² My own view is that if a purchaser gives a certain sum for goodwill, and he is quite clear that at any time he can sell the business and *obtain the same amount* for the new or sustained goodwill, he can spend all his profits with an easy conscience. But the statistical point as to excessive assessments is really a simple one. Suppose that a business yields £1,000 per annum trading profit over ten years and its proprietor A. pays tax on the income so enjoyed, representing £500 interest on his capital and £500

¹ Quoted by Ireson, *op. cit.*, p. 53.

² *Vide* “Goodwill,” by P. D. Leake in the *Accountant*; also “Depreciation and Wasting Assets.”

profit and earnings of management. B. has a similar business, and at the end of the third year sells it to C., who gives him the capital value plus £2,500 for goodwill. The suggestion is that C. should be allowed to write off this payment against profit, with the result that although identical profit had been made, one business would pay on £10,000 in ten years and the other on £7,500. The reason is of course that B. is not liable to income tax on his £2,500 sale, and until he is actually assessable no allowance can logically be made to C.¹ Whatever may be the logic or equity of the case *as between individuals*, when income is taken in the aggregate they are properly represented by assessments which make no allowance for goodwill. Just as in the case of depreciation, what may be true of a single year is not true of a number of years for any given concern, so in this case what is true of a single "income" is not true of all incomes taken together.

12. WASTING ASSETS OF A PHYSICAL CHARACTER.—

(a) **Mineral Properties, Guano Deposits, etc.**—It is not necessary to discuss here the difficult question of incidence of taxation in these cases, and the claim that is being repeatedly made for the total exemption of *corpus* value from tax. I have shown elsewhere² that, so far as mineral properties situated in the United Kingdom are concerned, the apparent incidence is not the true incidence, and that the wasting assets allowance should only be given if and when the capital sale of mineral properties outright is chargeable to tax. Unless we are prepared to state as a fundamental principle that royalties should not be taxed because they are payments for the *corpus* of the property, we must regard *all* payments

¹ Statistically this point is similar to leaseholds and other cases where a "capital" consideration for rights in future profits is not assessable on the recipient: *vide Economic Journal*, 1912, p. 282.

² *Economic Journal*, March, 1910, p. 109, and 1912, p. 283. A perusal of the evidence before the Select Committee of 1852 shows that little advance has been made in the arguments used in this matter. The Select Committee on Rating of Mines, 1857, reported:—"It was contended with great force that the principle should be recognised that the working of a mine is the using up of the *corpus* and not of the mere annual produce capable of reproduction." The advocates of wasting assets allowances do not discuss the fundamental justice of taxing the natural yield, but beg the question as self-evident and attack any schemes which do not carry out the exemption.

for worked-out minerals as part of the "national income." There is therefore no undue swelling of the income tax statistics because of the inclusion of payments for coal, etc. As to the amount that is so included, we have no better guide than the Mineral Rights Duty, which charges not only royalties paid, but also the "annual value" of minerals worked by the owner, on a royalty basis, and from this information the amount appears to be £7,000,000, to which some addition should be made for foreign mineral properties, etc.

(b) **Cost of Pit-sinking, etc.**—The capital expended in sinking and equipping shafts is of course of no value when the mine is worked out. No allowance is made for income tax purposes to represent the exhausted value during each year, and therefore the assessed profits may be regarded as excessive compared with commercial profits to this extent. An estimate based upon the probable number of shafts in the country, as deduced from official returns, an average diameter and depth obtained by numerous samples from geological sections, etc., and at a cost derived from numerous technical books on mining engineering, yields a result not greatly different from a tonnage allowance on output which is known to be adopted by some coal mining companies in computing the annual allowance. It indicates that the sum to be deducted from profits under this head annually is about £2,000,000.

This should be supplemented to include pit-head buildings and machinery which are also useless, and for which inadequate allowances might frequently have been made.

(c) **Buildings—Depreciation and Obsolescence.**—" . . . no allowance is made for sums necessary to replace capital lost by depreciation of buildings. Now the houses, etc., in this country, apart from their lands, are worth about £2,300,000,000, and if they be supposed to last on an average for 100 years, then there is a loss of £23,000,000 of capital each year, due simply to these buildings growing old, which is entirely ignored by the income tax authorities."—IRESON, *op. cit.*, p. 54.

"A further legislative step in the direction of making allowance for depreciation was taken in 1894, when by the Finance Act of

that year a deduction of one-sixth from the rack rent value of buildings was authorised as an allowance to cover maintenance and repairs. Although nothing was specifically said on the point, it may be inferred that the allowance was intended to cover also eventual replacement of buildings. For Sir W. Harcourt stated in the House of Commons that the rate of allowance was taken at one-sixth pursuant to Mr. Hubbard's recommendation of 1861, and a reference to Mr. Hubbard's arguments shows that he adopted the figure of one-sixth of gross value as calculated to cover 'the ultimate renewal of the fabric when decayed by age' as well as current repairs" (Report of the Income Tax Committee, 1905, para. 74).

Even if the above quoted opinion of the Select Committee is a sufficient answer to the contention that wear and tear of buildings is not allowed, it hardly touches the question of obsolescence, which perhaps is often the more important factor. Premises become out of date, or unsuitable for their particular use, and have perhaps to be pulled down long before there is any necessity for treating them as "worn out." But this factor is so elusive and variable that no period of time can be set down as applicable to buildings as a whole, and of course many are in use long after the expiration of the time which might reasonably be adopted as usual. If the allowance of one-sixth suffices to cover the gradual decay of buildings, probably a small additional allowance as a sinking fund would provide for the risk of obsolescence before the "breaking-up" point is reached.

But in the case of trade buildings, occupied by their owners and used for *getting* income, and not for residence, the difficulty is not met by the one-sixth allowance, even to the extent of structural decay. For the deduction allowed from Sch. D is confined to the *net* Sch. A, so that full duty is paid on the whole profits (under the two schedules) without any allowances for repairs, etc., except such actual outlay as may be charged in the revenue accounts. This method effectively rules out any "decay" allowance. The Income Tax Committee, 1905, suggested that the full Sch. A might be allowed as a rental deduction from profits (*ibid.*, par. 75).

Trade buildings in Great Britain (1911) were worth £55,000,000. Adding two-thirds of residential shops, £10,000,000, we have £65,000,000 as the full annual value which may be claimed as an expense against profits. Fully one-third would be applicable to non-liable profits, and of the remainder not more than one-third would be occupied by the owner. This makes a maximum figure of £14,000,000 as the gross value of premises which suffers by the method of allowance in question. All actual repairs are charged in arriving at Sch. D liability, so that the "gradual decay" allowance would be but a small part of the one-sixth, say one-sixth part again (*i.e.*, on £36 rental value the allowance is £6 per annum, and of this sum £1 per annum would suffice to provide for the gradual decay: even at 3 per cent. it would amount to the full capital value in less than one hundred years), £300,000 per annum, would be a sufficient deduction from profits for this purpose for the United Kingdom.

It remains to compute the "obsolescence" figure for *all* buildings, £224,000,000. This has to cover only the *extra* risk of uselessness before decay, and is not wholly to be set off against Sch. D. We may assume that the sinking fund for structural decay would provide for one hundred years, so that it is unnecessary to allocate more than the difference between the hundred-year sinking fund provided in the one-sixth allowance and a seventy-year sinking fund which would rebuild all the premises. This might amount to £4,000,000, on the assumption of seventy years' profitable life, while a much smaller amount would be adequate if the life is well over seventy years. It represents all that need be deducted from the income tax income to reduce it to a "commercial" basis.

(d) **Inadequate Allowance for Wear and Tear of Machinery: Obsolescence.**—It is sometimes stated that the tax statistics are swollen because the allowances for depreciation are inadequate.¹ The question was reported upon by the Income

¹ Ireson, *op. cit.*, p. 53 :—"Generally much less than what is written off by the owners of such property."

Tax Committee, 1905, and it may be said that within recent years the allowances have been standardised to a much greater extent than formerly, and a greater range of machinery and plant is now brought within this method and taken from the range dealt with by renewals and repairs. The distinction, and the confusion arising from failure to appreciate it, have been explained in the section dealing with the subject in general.¹ It is only necessary here to say that, once again, what is true of the parts is not necessarily true of the whole. All the points connected with renewals and a proper rate of depreciation are doubtless vital when dealing with the correctness of profits in an individual case in a particular year, but they cease to have importance when the statistics are taken in the aggregate. For example, if we assume that no wear and tear allowance is given for gasholders, and that they usually last forty years, it is clear that the taxed "profits" will be in excess of true profits for thirty-nine years, but greatly below true profits in the fortieth year, when a very large charge for renewal is deducted as an expense. But if we also assume, as we may fairly do, that gasholders generally are being renewed evenly over the whole period of forty years, the aggregate is made up of separate items, of which for every forty that are excessive each to the extent of one-fortieth of a gasholder (= plus one gasholder) there is one item that is deficient by the value of one gasholder, and the aggregation of the items cancels the differences. So much for the effect of the rival methods on the aggregate.

But let us assume that we are dealing solely with depreciation and, for the moment, that the rates are inadequate. It must be remembered that the concession of an allowance for obsolescence operates so that when a machine is scrapped and replaced by a new one a deduction is allowed of so much of the cost of replacement as is represented by the written-down value of the old machinery (less any scrap value). Let us take a simple instance where 4 per cent. from cost has been allowed and where really it should have been 5 per cent.

¹ P. 179.

It lasts eighteen years,³ and its scrap value is therefore £10. For every original £100 we get :—

Proper Allowance.		Improper Allowance.		Differ- ence.
	£		£	£
£5 per annum for 18 years	90	£4 per annum for 18 years till scrapped	72	— 18
Allowed on replacement	} <i>nil</i>	Allowed on replacement	} 18	+ 18
Written-down value, £10 — 10 scrap value.		Written-down value, £28 — 10 scrap value.		
Total allowance	90	Total allowance	90	<i>nil</i>

When an insufficient rate is given, the injustices of a long period are thus compensated in a single year. We may fairly assume that these compensations, in the aggregate, are not all made in the *same* year, but are spread evenly over the period, so that the statistical total is really quite undisturbed. The obsolescence allowance acts as a kind of compensatory balance, and there is no net loss or gain on the whole industry.

The only real failure is in the case where the obsolescence allowance is inoperative owing to machinery not being, in actual fact, renewed. The loss in this case is the difference between the actual written-down value and the true written-down value, though there may appear to be additional loss through compulsory realisation of assets at something less than their running value. But in the latter case, if the purchaser gets a "bargain," an asset which is really worth more than appears in his balance-sheet, there is a secret reserve which has not borne tax to balance the apparent loss of the seller in the aggregated statistics. And even with regard to the former, the true loss, it usually occurs in the case of "dying" concerns and forms part of the capital gone out of existence to which reference has already been made. Altogether I am of opinion that 3 per cent. of the total wear and tear allowance, or about £850,000, is an ample allowance under this head.

(e) **Allowances for Depreciation of Fixtures, Fittings, and**

Furniture.—Allowances made by way of actual renewals only are obviously inadequate when furniture, etc., is not actually renewed, but allowed to wear out. Otherwise, although the method may not be satisfactory in individual cases in particular years, it is statistically correct over the whole field, and in the long run. It is not easy to estimate the value of unrenewed fittings (as distinct from the capital “losses” for defunct firms, etc., which have already been under consideration), but it is unlikely to exceed £500,000. For the future, however, it appears¹ that, by concession, allowances for depreciation are to be extended to this class of assets, so that the necessity for any such statistical deduction under this head should almost disappear.

13. BREWERS’ EXPENSES FOR TIED HOUSES.—These expenses are undoubtedly proper charges from a commercial point of view. From an income tax point of view, until quite recently, the legal position was that they were not expenses of the brewer, *quâ* trader making profits, but expenses of the brewer *quâ* landlord holding property.² Under recent judicial decisions practically all the brewers’ expenses for repairs, costs of licences, insurances, etc., relating to tied houses are to be recognised as trading expenses and allowed. Their statistical effect has not been published, but a consideration of published accounts as a sample, and of the whole capital involved, suggests that they could not have exceeded £2,000,000 annually.

14. RESERVES.—It is commonly stated that because “reserves” are not allowed as deductions in computing liability for income tax the assessments must be much greater than “incomes” in the ordinary sense of “spendable” incomes. When the tabulated summaries of the trading results of industrial companies as given in the *Economist* from time to time are examined and it is seen that from 23 to 27 per cent. of the “profit” is allocated to “reserves, etc.,” the question seems to assume considerable importance.

¹ *Vide* correspondence, etc., in the *Accountant*, 27th March, 1915.

² For the changes brought about in the economic aspects of the Taxing Acts by the process of time, *vide* article by the writer in *Economic Review*, October, 1909

Part of the misconception on the subject is due to ignorance of the true significance of terms in accountancy. There are some expenses which may be charged against gross profits *either* at the actual time and in the actual amounts incurred, *or* by setting aside a fund or reserve by regular contribution out of profits, from which the expenditure is met as it arises. The method adopted, even for the same class of expenditure, varies often with the nature of the business, but the *ultimate result* is the same, and the profits over a series of years are depleted to the same extent. For income tax purposes in the case of reserves for ordinary expenses, bad debts, etc., although the amount reserved in the profit and loss account is *not* allowed as a deduction, the actual expenditure charged against the capital or reserve account is allowed, and there is no difference in the long run.

Reserves may be made for (1) expenses ; (2) wastage of capital ; (3) equalisation of dividends ; (4) capital extensions.

(1) In the case of *expenses*, where the expense is itself chargeable against profit for income tax purposes, the position is not really altered by the "reserve" method. Where it is not so chargeable, the remarks already made under such heads as "preliminary expenses," "expenses of raising new capital, etc.," are equally applicable to reserves.

(2) *Wastage of capital* has been referred to under "wear and tear," "obsolescence," "cost of pit-sinking, etc.," and whether the charges are made by *writing down* the assets out of profits, or creating specific or general reserves against those assets, the result is the same in the end. One colliery charges £10,000 in its profit and loss account for depreciation, and reduces the capital value of its assets in the balance-sheet by that sum, while another devotes £10,000 of its profit to "reserve," does *not* reduce the value of its assets, but creates a counterweight or reserve on the other side of its balance sheet. One of the stumbling blocks of the tyro in book-keeping is the treatment of a "reserve," which he naturally regards as a distinct "asset," as a "liability" in this account. It has already been pointed out that allowance for goodwill, whatever may be the position as regards the individual cases affected, is indefen-

sible in a consideration of income or profit as a whole, from an aggregate or national point of view.

(3) *Equalisation of dividends* by way of reserves made in prosperous times does not need prolonged consideration. It has the effect of steadying the increase in available or "spendable" income as compared with the income shown by assessments. Obviously no deduction should be made from the official statistics on this account.

(4) *Capital extensions* are frequently made by way of continual reserves. These are of the nature of compulsory savings or investment out of income which is not *handled* by the owner. This investment stands as a solid backing for the shareholder's share, which is priced not only upon its dividend yield, but also upon the reserves attaching to it. Nevertheless, if two companies were identical in share capital and profits, but one paid its whole profit away in dividends and the other made considerable reserves, it is improbable that the difference between the market value of the shares would be *fully* equal to the reserves. But this is only to say that market values are dominated by an individual outlook that appreciates the dividend handled and discounts a compulsory investment not fully understood or controlled. It does not alter the fact that the profits made *are* identical, and the sale value of the two concerns is the same, and it does not justify a considerable and fortuitous deduction from aggregate profits to arrive at aggregate personal incomes, unless the latter are under consideration for certain limited purposes as incomes immediately "spendable."

A striking modern method which was increasingly favoured in the last trade boom is the issue of "bonus" shares, on an increase in the capital of the company, by which the shareholder becomes possessed of his compulsory savings in a tangible form as new "capital." These profits do not evade income tax at the time they are made, but whether on emerging as income to the individual they have to be included, like a dividend, as "income" on a claim for abatement or relief or on a super-tax return may depend upon some fine legal points connected with the

form of issue. In this sense aggregated *individual* incomes may be considerably less than aggregated assessments on profits, and the point is of particular importance in any attempt to distribute "income-tax" income over separate classes whose aggregates are measured by super-tax assessments, relief claims, etc. The failure of considerable amounts of profit assessed upon companies to appear as *income* upon individual statements would lessen the amount of income and number of persons assessable to super-tax. It would also increase the number of persons entitled to reliefs and abatements and therefore the income assigned to the respective grades. Whether or not any deduction from gross assessments is necessary on account of this class of reserves depends upon the particular aspects of income under consideration, but some recent conspicuous instances of enrichment of shareholders by this method make one hesitate to modify a clearly understood conception of profit income on account of such easily manipulated methods of disposing of profits.

Summary.

It will have been seen that of the considerable number of adjustments commonly alleged to be necessary in order to reduce "assessed profits" to "commercial profits" only a few have any actual validity. It cannot be asserted with too great emphasis, however, that this conclusion has no relation whatever to the propriety of allowance from the point of view of taxation, upon which no judgment has been passed, but refers entirely to the connection between statistics of aggregated tax assessments and the statistics of aggregated commercial profits. Misapprehensions arise under three heads :—

- (1) As to the actual character and method of making allowances (*e.g.*, bad debts) ;
- (2) The particularist fallacy, that what may be true of some or all the parts separately, is necessarily true of the aggregate (*e.g.*, goodwill) ;
- (3) The fact that differences of treatment *in point of*

time are not at the same stage in every case, and that in the aggregate the differences disappear (*e.g.*, renewals of gasholders).

Some of the points have been made good, however, and the statistical effect may be summarised :—

	£
(3) True losses not given full effect in income tax statistics	16,000,000
(6) Annuities	3,000,000
(10) Expenses for limited companies	1,000,000
(12) (b) Pit-sinking costs	2,200,000
(12) (c) and (d) Building obsolescence and machinery obsolescence	5,000,000
(12) (e) Fixtures and fittings	500,000
(13) Tied house expenses	2,000,000
Total in round figures	30,000,000

The last two items will disappear for the future. It will be observed that (12) (c) relates mainly to Sch. A and (6) mainly to Sch. C, so that the excess under Sch. D represents about $4\frac{1}{2}$ per cent. on the gross assessment in the past and about 4 per cent. in future. This estimate is admittedly conditioned mainly by the accuracy of the first item, which is not susceptible of any exact measurement, and in which a general impression gained on a wide experience of the actual problem is the only guide.

Co-operative Trading.

The so-called "profits" of trading by industrial co-operative societies are not assessed to income tax. The reasons will be found fully discussed before the D. C. on Income Tax, 1905.¹ It is of the essence of the argument that the amount of these "profits" is arbitrary, and that as the whole object of the societies is to supply their members at cost price, it is immaterial whether the trading is done on such terms as to admit of no dividend being paid or of a large

¹ Particularly Appendix X., p. 44. *Vide* also my article "Economic Aspects of Income Tax Change," *Economic Review*, October, 1909.

dividend being returned to the members : no real profit in the ordinary sense exists. At any rate, even if a personal profit attaches to the recipient, equal to what, in the ordinary way, would have belonged to the grocer, etc., the recipient is nearly always exempt from income tax and the sum per head is very small.¹ Most societies find that the "divi." has a glamour of its own, and actual trading at cost is not commonly found. On the assumption that the "divi." represents the difference between cost price and ordinary prices, it may be convenient for some statistical purposes to regard it as a trading profit. It has been given at £7,000,000 in 1903² and £9,000,000 by the Board of Trade, rising to £14,000,000 for 1913.³

GROSS SCH. D ASSESSMENTS—SEQUENCE OF STATISTICS : TIME COMPARISON.

The following are the *chief* breaks in the *series* ⁴:—

(1) **The Omission of Ireland, 1842 to 1852.**

Although the fact is well known, it is sometimes forgotten when comparisons are being made.

An estimate of what the assessments would have been in this period has been made in Appendix III. for the purpose of the complete Table D.

(2) **False "Gross Assessments" (Schs. D and E) in the Years 1842 to 1867: Exemptions.**

The "gross assessments" shown in the 10th, 13th, and later Reports for this series of years differ completely in character from those shown for years subsequent to 1867, although they are given in an uninterrupted series and are consequently used by all statisticians in direct comparison

¹ Estimated as under £5 per head.

² *S. J.*, 1905. *Vide* also *S. C.* on Co-operative Societies, 1879–80, and the various year-books for past statistics.

³ *I. T. Committee*, 1905, p. 47. Chief Registrar's Returns, p. 186.

⁴ Only changes in *scope* have been noted. Legislative enactments designed to render administration more effective in preventing evasion, etc., over the existing field have been ignored.

with the later years. The key to the difference will be found in the analysis of the assessments in the 1st Report, and a footnote on p. 194 in the 13th Report. The first Report shows that in 1854-5 the amount given as gross assessment, Sch. D (£91,280,131), included £11,591,324 described as "amount of profits under £100 exempted," while Sch. E (£4,554,855) included £234,795 similarly exempt. The summary tables in the 13th Report for the years 1842 to 1867 have a note:—"In the year ended 5th April, 1868, the gross amount of property and profits assessed does not include, as in preceding years, incomes under £100 and exempt from tax." Unlike the exemptions under Schs. A and B, which together with the liable assessments cover the entire field, and complete the record for the whole country, these exemptions under Schs. D and E were a purely arbitrary figure, diminishing annually in amount as the non-liaible cases surveyed by the Commissioners were gradually "weeded out" of the assessments. Obviously they do not represent the income of the non-liaible class, but only a section of it that happened to be considered, lying subjacent to the limit of liability. From 1842-3 to 1862-3 the difference between "gross" and "net" is wholly attributable to this feature, and the "net assessments" therefore correspond with the present conception of "gross" (save for "insurance" and "expenses" allowances dealt with hereafter¹), and have been substituted in Table D1. From 1863-4 there were abatements which formed part of the difference between the "gross" and the "net" assessments (*vide* p. 498). After the elimination of the exemptions from the gross figures in 1867-8 a small sum still lingered on annually until 1874-5 in that section of Sch. D then described as "Public Companies, etc.," viz., the concerns under Sch. A, No. III., transferred to Sch. D in 1866-7, and referred to in the 28th Report, p. 294 (footnote). In 1868-9 it could only have been £19,000, for in that year the difference between "gross" and "net" was £11,460,077, of which abatements account for £11,440,985, and as it diminished it may safely be ignored altogether. The actual sums included in the statistics,

¹ P. 207.

which, by present standards, should be excluded as meaningless and misleading, are given in the following table (£ thousands omitted) :—

Year.	D.	E.	Year.	D.	E.	Year.	Total Difference, Sch. D.	Exempt and Abated.	Total Difference, Sch. E.	Exempt and Abated.
Great Britain only.			United Kingdom.							
	£	£		£	£		£	£	£	£
1842	13,667	181	1853	13,456	208	1863	12,029	{ 4,529	1,419	{ 289
1843	10,804	80	1854	11,591	235			{ 7,500		{ 1,150
1844	10,966	113	1855	9,314	318			{ 5,150	1,680	{ 250
1845	12,004	137	1856	8,952	274	1864	13,970	{ 8,820		{ 1,430
1846	10,469	164	1857	6,115	222			{ 4,792		{ 238
1847	10,680	120	1858	5,554	233	1865	14,292	{ 9,500	2,218	{ 1,980
1848	13,078	207	1859	6,438	243			{ 4,870		{ 189
1849	11,504	165	1860	5,135	216	1866	14,885	{ 10,210	2,049	{ 1,860
1850	11,191	305	1861	5,682	221			{ 39		
1851	12,201	167	1862	5,124	265	1867	10,869	{ 10,830		
1852	11,393	200								

In the earlier years it will be seen that it amounted, under Sch. D, to 25 per cent. of the whole. It follows that to this extent all the comparisons made in numerous statistical writings are incorrect, because the full significance of the difference was not understood. It would be tedious to give examples of what was universal. The divisions estimated from 1863-4 to 1867-8 have to agree with the requirements of the table on p. 312.

Even with these corrections the assessments are not *exactly* comparable with later years, because from 1853-4 to 1873-4 they are *exclusive* of life assurance allowances under Sch. D, and of life assurance and expenses allowances under Sch. E.

(Of course, at the present time the gross assessments under Schs. D and E include a certain amount of "exempt income," but it consists mainly of repayments upon dividends, etc., received from companies, etc., assessed in full, or income upon which the title to exemption was proved *after* the assessments were completed.¹)

¹ *Vide* p. 53.

(3) Allowances for Life Assurance (Schs. D and E) and Expenses (Sch. E), Years 1853-4 to 1874-5.

These allowances were first granted by law in 1853-4; they do not appear in the statistics until 1874-5. The 19th Report gives a tabulated statement of life insurance, "the particulars of which have not hitherto been given by our statistical accounts."¹ It would have been thought that they must certainly be included in the above-detailed "gross assessments," and form part of the difference between the "gross" and "net" in the table given. It seemed so unlikely that, while the meaningless figures of "exemptions" were carefully included in the statistics, these allowances should be as carefully deducted before the figures were classified, that the conclusion has been accepted only after careful consideration of the evidence.²

(4) Composition for the Assessment (Sch. D), 1842 to 1859.

The tax was first levied for three years from 1842, again for three years from 1845, and again from 1848. In 1851 and 1852 it was renewed annually, but in 1853 it was proposed to continue it definitely for four years. In the first Act provision was made for "compounding" under Sch. D; by an extra payment of 5 per cent. upon the *duty* each year the assessment as computed for the first year was repeated each year. There is very little direct information available as to the extent to which this provision was used, except

¹ P. 57.

² This evidence includes—(a) the full analysis given in the 1st Report; (b) footnotes to the classifications in 28th Report; (c) reference to contemporary blank forms in which the various columns indicate the method of treatment; and (d) testimony of retired officials still living.

In order, therefore, to make the figures from 1853 to 1873 comparable with those for prior and subsequent years, a sum has to be added, and of what this should be there is no record. In 1874-5 the life assurance under Sch. D was £464,134 (out of £266,942,347) and the life assurance and expenses under Sch. E £508,212 (out of £32,540,064), and the sums for previous years have been computed according to this proportion to the gro for Table D1.

that contained in the minutes of evidence before the Income Tax Committee, 1852¹ :—

Year.	Number of Persons.	Duty Paid.	Assessments.
		£	£
1842-3	2,262	110,332	3,603,000
1843-4	2,258	110,175	3,598,000
1844-5	2,250	109,990	3,593,000
1845-6	2,561	145,444	4,749,000
1846-7	2,557	145,362	4,747,000
1847-8	2,541	144,808	4,729,000
1848-9	1,621	93,249	3,045,000
1849-50	1,621	93,249	3,045,000

The amount of the assessments in the last column has been computed from column 3. One twenty-first part of the total duty is deducted as the 5 per cent. composition, and the balance computed in terms of assessment at 7*d.* in the £.

It was obviously to the advantage of all concerns whose profits were rising rapidly, if the results could be sufficiently foreseen, to compound. But in any case the risk was small, for if the year 1839 to be dropped out of the average for the 1843-4 assessment showed a poor result, it would be fairly certain that the normal new average would rise considerably : a rise of 15 per cent. for the two years 1843-4 and 1844-5 together would have justified composition. If, therefore, the most "promising" cases were retarded by composition in the second and third years (on each imposition), the aggregate would be depressed below the true figure in those years and jump suddenly upon the new assessment and fresh composition. The triennial periods 1842-4 and 1848-50 are interesting examples.² On the other hand, widespread practice of composition in the hope of prosperous years, which was falsified by events, would tend to sustain the figures *above* their true level. The period 1845-7 illustrates this. The remaining years of composition, 1853 to 1859,

¹ Vol. II., Appendix, p. 421.

² P. 218.

present no fluctuations for adjustment. With the annual reimposition of the tax the provision became obsolete,¹ and it was formally repealed by the Statute Law Revision Act.

From the 1st Report may be gathered the extent of composition 1853-4 to 1856-7, as the duty indicates :—

				£
England	.	.	.	2,188,500
Scotland	.	.	.	187,800
Ireland	.	.	.	648,600

Total assessments . . . 3,024,900

while in 1858-9, when there was no differential duty, the excess of duty over and above 5*d.* in the £ on the net assessment is due to the inclusion of compounding duty of 5 per cent., and accounts for composition upon £2,888,640.

The preceding table may be carried down to 1859-60 as follows (assessments compounded) :—

	£		£
1850-1 . . .	3,045,000	1855-6 . . .	3,025,000
— . . .	—	1856-7 . . .	2,979,000
1853-4 . . .	3,079,000	1858-9 . . .	2,889,000
1854-5 . . .	3,079,000	1859-60 . . .	1,832,000

These estimates are arrived at partly as above and partly from “residual duty.”²

The 133rd section reduction³ did not apply to assessments under composition, and whatever the loss may have been there was no repayment.⁴ There were numerous cases of great loss at the end of 1847, and as the composition did not expire till 1848 the original assessment was paid.⁵ In only two instances, in cases of death and insolvency, were the assessments revised.⁶ In the city of London “the great majority of the assessments, all the large assessments,” were made under composition ; “almost all the great banking and

¹ Senior, “Handbook to Income Tax Law and Practice,” 1862.

² *Vide* p. 253 on “Classification of Assessments.”

³ The right to revise an assessment by bringing a poor result into the average at the end of the year of assessment.

⁴ Income Tax Report, 1852, Qs. 994-996.

⁵ *Ibid.*, Qs. 991-994.

⁶ *Ibid.*, Qs. 1,153-7.

mercantile establishments compounded for three years," and these assessments were more strictly inquired into.¹

The reason for the decrease in 1848-9 was the fact that the 1845 assessment was low, and the manufacturers, anticipating an increase, preferred to compound to a greater extent than in 1848.²

In making an attempt to adjust the figures of the gross assessments to allow for the effect of composition on the foregoing lines it is *prima facie* probable that the true figures lie between the official figures and figures which represent an even progression from fixed point to fixed point, as indicated below:—

(ooo omitted.)

—			Official Figures corrected for additional Assessments.*	Even Progression.	Mean Figure.	
			£	£	£	£
1842	.	.	57,163†	57,163	57,163	± 200
1843	.	.	54,224	57,657	55,940	± 1,717
1844	.	.	54,129	58,152	56,140	± 2,012
1845	.	.	58,646	58,646	58,646	
1846	.	.	60,394	57,156	58,775	± 1,619
1847	.	.	59,913	55,667	57,790	± 2,123
1848	.	.	54,177	54,177	54,177	
1849	.	.	53,707	55,144	54,425	± 719
1850	.	.	54,910	56,111	55,510	± 601
1851	.	.	57,078	57,078	57,078	
1852	.	.	58,909	58,909	58,909	

* *Vide* p. 255.

† The actual figure given officially is £57,663,000, but this was, for administrative reasons, too high (as in the analogous case of the first year in Ireland, 1st Report, *vide* p. 505). The unusually high amount in schedule of discharges is sufficient evidence of the fact. One half of the excess of the discharge schedule in 1842 over succeeding years has been assigned to Sch. D and the total corrected accordingly.

(5) The Exclusion of Ireland, 1842-1852 : Effect upon Statistics for Great Britain.

The tax from 1842 to 1852 provided for the taxation of income received by residents in Great Britain from securities

¹ Income Tax Report, 1852, Qs. 1,078-1,082.

² *Ibid.*, Qs. 1,178-9.

and possessions in Ireland in the same clauses which provided for taxing such income from countries abroad. These references to Ireland were necessarily repealed as soon as the tax was extended to that country itself; and what had hitherto been assessed in Great Britain as income from overseas became assessed *at the source* in Ireland. Rents from Enniskillen received by a London resident were assessed under Sch. D in England prior to 1853; after that date they were assessed under Sch. A in Ireland. Hence for purposes of comparability the figures for Great Britain prior to 1853 should be reduced by the amount of the assessments on income from Ireland; and this is especially necessary if an estimate is made for Ireland (1842-52) to complete the comparison for the United Kingdom, otherwise this income would be included twice over.

The only clues to the necessary facts are Parliamentary Papers for the years 1848-9 to 1852-3 ¹ :—

Income from Ireland.	1848-9.	1849-50.	1850-1.	1851-2.	1852-3.
	£	£	£	£	£
Sch. D.: Securities and possessions . . .	734,352	695,347	663,769	699,676	670,719
Sch. C: Dividends from Irish funds* . . .	106,309	114,368	105,098	102,720	104,895
Sch. E: Salaries and pensions† . . .	82,732	80,571	81,017	84,822	85,680

* *Vide* p. 167.

† *Vide* p. 267.

Material variation during other years is very improbable, and the required corrections have been made on this basis.

(6) Change in the Exemption Limit, 1853.

The exemption limit was lowered from £150 to £100, and thus many assessments came into the "gross" statistics, in the manner explained in Appendix I., where the effect upon the totals is estimated at £11,000,000 for Great Britain for Table D1.

¹ H. C. 270—1850, and H. C. 194—1854.

(7) Change in the Exemption Limit, 1876-7.

The exemption limit was raised to £150 again, and the effect was that gross assessments to the extent of £20,000,000 $\pm$ £500,000 were excluded.

(8) Change in the Exemption Limit, 1894-5.

This is also dealt with in Appendix I., and the effect estimated at a loss of £8,800,000 $\pm$ £700,000 for Table D.

This change should not be confused with the allowance of abatements, *which do not affect gross assessments*.

W. H. Price associates the 1894 exemption change with the 1898-9 abatement extensions in comparing gross income, Sch. D, and makes the same comment against the two years ("The British Income Tax," *Quarterly Journal of Economics*, February, 1906).

W. H. Mallock compares 1891-2 and 1902-3 for percentage increase in consideration of unemployment, and ignores this break ("Expatriation of Capital," *Nineteenth Century*, March, 1906).

(9) Sch. D Assessments : Inclusion of Railways, etc., after 1865-6.

Up to 1865-6 the assessments on quarries, mines, iron-works, fisheries, canals, railways, gasworks, etc., were included under Sch. A. In 1866-7 (when the amount was £32,600,000) they were transferred to Sch. D, the total of which increased from £134,000,000 to £173,000,000 in the year. The statistics have been fully dealt with under Sch. A,¹ and the transfer is shown in Table D.

The figures under Sch. D are sometimes quoted for a series of years without any attention being drawn to this transfer, and are therefore misleading, *e.g.*, in evidence of the prosperity of British trade.—"Fiscal Dictionary," p. 141 (Sir L. Chiozza Money).

G. Howell ("Capital and Labour," 1878, p. 411) quoted figures for 1861 and 1875 as evidence of growth of trade, without drawing attention to this break.

¹ P. 493.

(10) **Unassessed Duty.**

In the 45th Report it was explained that "the figures of gross income as given in previous reports have not covered quite the whole of the ground . . . for they have been confined to the gross income brought into assessment, and have been commonly described under the term 'gross assessments'; and they have thus left annually out of account some two to five millions of income on which tax is collected without regular assessment. For in the course of collecting the tax it occurs that errors and omissions in assessments are discovered, and of these a considerable number are adjusted, with consent of the persons liable, by payment of the tax found to be due, and without formal correction of the original assessments." The description was accordingly altered from "gross assessments" to "gross income" or "gross income reviewed." It will be found on a comparison of the two systems that in practice the whole of the income unassessed is added to the gross Sch. D assessments, though presumably some of it relates to Sch. E, or even, in the case of the correction of abatements, etc., wrongly allowed, to Schs. A and B. But undoubtedly the largest proportion relates to Sch. D, and any error arising in this way is negligible. The amount added was as follows (thousands omitted) ¹ :—

	£		£
1891-2 . . .	7,404	1896-7 . . .	4,295
1892-3 . . .	5,474	1897-8 . . .	5,133
1893-4 . . .	4,791	1898-9 . . .	4,096
1894-5 . . .	3,840	1899-1900 . . .	3,712
1895-6 . . .	4,937		

No information is given in the Board's reports since this change.

The actual corresponding figures for earlier years are not ascertainable, but in the 44th Report and prior thereto the actual *duty* recovered is added to the *duty charged* in order that the "net produce" and "net produce per penny"

¹ 45th Report, p. 173, compared with 44th Report, p. 103.

of the tax may be ascertained. It is, however, not given alone, but with other duties under the title "Receipts for Unassessed Duty and for Recoveries from Default Schedules of Prior Years," and the details under this heading may be seen right back to 1842.¹

(II) The Transfer or "Drain" from Sch. D to Sch. E.

(I) **General.**—As a consequence of the legal distinction between Sch. D and Sch. E a constant drain from the former to the latter is going on, the net effect of which is that a series of gross assessments for Sch. D always shows *less* than the *true* increase, and a series for Sch. E shows *more* than the true increase. The amount of the average annual transfer is small relatively to the total Sch. D assessments, and does not vitiate time comparisons to a serious extent, but it is very considerable relatively to the total Sch. E assessments, and no inferences should be drawn from the latter without taking it into consideration. The following case is typical of the way in which it arises. An established business, having six employees liable to tax, with salaries (which for simplicity we will assume have been fixed for some years) aggregating to £2,000, is turned into a private limited company. The profits of course remain under Sch. D, but all the salaries go over to Sch. E; the £2,000 is a mere transfer, and serves to depress the real growth under Sch. D and to exaggerate the real growth under Sch. E. The safest course, for time comparisons, is to aggregate the two Schedules where possible.

Since the number of established businesses being registered as companies is considerable, the amount of this drain is important, but there is no way of determining it exactly. We can, however, obtain some idea of the limits within which it must fall.

The following table shows, from 1898-9—(a) the total Sch. E assessments other than Government officials; (b) the total of the assessments on "Employments" under Sch. D,

¹ By using 44th, 37th, and 25th Reports. For details as to the methods employed in supplying these figures for Table D, see Appendix II.

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which have been classified separately since 1898; while (c) gives the total of the two representing *all* employees liable to tax, and the last column shows, for comparison, the number of companies standing on the Board of Trade Register:—

Year.	(a) Sch. E (not including Government Officials).	(b) Sch. D on “Employ- ments.”	(c) Total Employ- ments.	Number of Companies.
1898-9	45,060	21,874	66,934	27,969
1899-1900	49,088	21,840	70,928	29,730
1900-1	52,762	22,452	75,214	31,429
1901-2	55,880	22,541	78,421	33,259
1902-3	59,564	22,373	81,937	35,965
1903-4	63,449	23,049	86,498	37,287
1904-5	67,049	23,204	90,253	39,616
1905-6	70,027	23,402	93,429	40,995
1906-7	73,531	23,751	97,282	43,038
1907-8	80,117	25,279	105,396	45,304
1908-9	85,177	27,069	112,246	46,474
1909-10	88,981	26,736	115,717	51,787
1910-11	94,005	26,929	120,934	53,707
1913-4	116,979	31,191	148,170	—

On the reasonable assumption that apart from existing businesses being continually registered as companies the number of additional employees and increased salaries in private businesses would tend to be similar in proportion to that in companies, we may say that, but for the transfer we are discussing, the percentage increase of total employments in any period would be approximately the percentage increase for the two separate sections also, *i.e.*, the section assessed Sch. D and that assessed Sch. E. The amount by which the facts deviate from this result may be taken as indicative of the effects of the annual “drain.” Thus the increase in total employments between 1898-9 and 1910-11 is 80 per cent., but Sch. E shows 109 per cent. and Sch. D only 23 per cent. Now if Sch. E has really increased only 80 per cent. it would be for 1910-11 £81,108,000 only,

instead of £94,005,000, and the balance £12,897,000 represents the "drain" in twelve years, or rather over £1,000,000 per annum. It is unlikely that the rate of increase in new companies (not being existing businesses) and in *bonâ fide* salary advances for old companies is less than the rate of increase for private businesses, so that this calculation gives the maximum amount of the transfer. But there have been other disturbing factors since 1907 (dealt with below), and it will be safer to deal only with the period 1898-9 to 1906-7, eight years. On this basis the maximum annual transfer is one-eighth of £7,966,000, or just under £1,000,000. During these eight years public companies have increased 54 per cent. and Sch. E assessments 63 per cent.

Effect of Employers' Declarations of Wages Paid.—It will be observed that a recent rise in Sch. D employments has succeeded to a period almost of stagnation; this has not been because the transfer to Sch. E has been less in operation, but in consequence of the Finance Act of 1907, which made it compulsory upon employers to furnish details of salary, bonuses, etc., paid to all liable employees. As a result the assessments rose by £3,318,000 in two years, or nearly twice the amount of the increase of the preceding eight years, but the effect was soon spent and, the "drain" to Sch. E once more asserting itself, the Sch. D employments remained practically stationary until the recent trade boom.

(2) **Effect of Differentiation since 1907.**—The private trader assessed under Sch. D has the benefit of the compromise which treats interest on his own working capital employed in his business as "earned income," but in no case are the profits of a limited liability company allowed the lower rate. Hence upon turning his business into a private company he takes out his profit, after charging his salary as an expense, in the form of dividends, and since only the salary is assessed under Sch. E at the earned income rate and the dividends must pay at the highest rate, his new position compares unfavourably with the old. It will be readily understood that a tendency is set up to take out as much of

the profit as possible in the form of salary, thereby reducing the dividend, to increase the sum chargeable under Sch. E and reduce the sum chargeable under Sch. D.¹

(12) **Wear and Tear Allowances : Comparisons before and after 1878.**

This "break" is fully explained on p. 178, where the facts relating to comparisons were more conveniently set out in connection with the present interpretation of the figures. The necessary adjustments of the earlier statistics have been made in Table D.

(13) **Ireland, 1906-7 : Land Purchase Scheme.**

This administrative "break" is only of importance because it is considerable in relation to *Irish* figures, and has given rise to erroneous inferences. (The increase in Sch. D assessments was over £1,400,000.)

"The gross income of England and Wales for the year to the 31st March, 1910, reviewed by the several bodies of Income Tax Commissioners, was £877,888,487, or 86·8 per cent. of the gross income of the United Kingdom. It is instructive to note that Scotland does not appear to be increasing her income at such a rapid rate as England and Ireland.

"For the year to the 31st March, 1910, there was a decrease of £3,184,024 in the amount of the gross assessment for Scotland, which compared with an increase of £3,893,638 in the case of England and an increase of £454,805 in the case of Ireland. Moreover, during the ten years ended the 31st March, 1910, there was an increase for the United Kingdom of £92,415,000 in the gross assessments to income derived from business concerns, professions, and employments under Sch. D. This increase was distributed as follows :—

	Amount of Increase.	Per Cent.
England and Wales.	£81,802,000	20·2
Scotland	£6,768,000	13·9
Ireland	£3,845,021	30·4

"These figures show pretty clearly that during the period named Ireland has progressed at a much more rapid rate

¹ Several cases of this kind among friends in business have come to my notice, and, though the matter affects only small companies, it would have an appreciable effect upon the transfer, and helps to mask the true increase under Sch. D and to exaggerate the growth of Sch. E.

than either of her partners."—EDGAR CRAMMOND, "England's Economic Position," *Nineteenth Century*, March, 1912.

Mr. Erskine Childers refers to the above as a "glaring instance of error," and points out that there is an official paragraph below the table to the effect that the Irish increase is illusory; "it includes annuities (in lieu of rent) on purchased land, transferred in the accounts of the Commissioners since 1906-7 to Sch. D. A corresponding amount has been written off from Sch. A" ("The Real Issue in Ireland," *Nineteenth Century*, April, 1912).

TABLE DI.—United Kingdom—Gross Sch. D Assessments
(in million £).

Year.	Official gross Figures hither- to generally used.	True comparable Series, if Exemption Limit had been £150 throughout.	True comparable Series, if Exemption Limit had been £160 throughout.
		+ or -	+ or -
1842	71·3	69·2	67·4
1843	65·0	67·8	66·1
1844	65·1	68·8	67·0
1845	70·3	72·9	71·1
1846	70·6	74·0	72·1
1847	70·2	74·2	72·3
1848	67·1	71·6	69·8
1849	64·9	71·7	69·9
1850	65·7	73·4	71·5
1851	69·1	75·8	73·9
1852	70·0	78·9	76·9
1853	93·0	86·5	84·3
1854	91·3	87·3	85·1
1855	88·2	87·1	84·9
1856	89·2	89·3	87·1
1857	90·8	97·2	94·8
1858	90·4	97·9	95·5
1859	95·4	102·1	99·6
1860	94·7	104·4	101·8
1861	99·4	109·0	106·3
1862	103·1	113·6	110·7
1863	112·2	123·2	120·2
1864	124·1	136·8	133·2
1865	134·4	149·6	145·3
1866	173·1	155·2	151·3
1867	171·8	159·0	155·0
1868	173·1	160·5	156·5
1869	178·4	165·8	161·6
1870	189·0	176·2	171·7

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TABLE DI—continued.

Year.	Official gross Figures hither- to generally used.	True comparable Series, if Exemption Limit had been £150 throughout.		True comparable Series, if Exemption Limit had been £160 throughout.	
			+ or -		+ or -
1871	202·9	191·4	2·0	186·6	2·4
1872	228·9	214·2		208·8	
1873	249·9	235·6		229·7	
1874	266·9	254·5		248·1	
1875	272·0	261·2	·5	254·6	·8
1876	256·9	262·6		256·0	
1877	260·6	266·0		259·3	
1878	257·4	261·2		254·6	
1879	249·5	255·5		249·0	
1880	255·4	259·0		252·5	
1881	267·4	272·4		265·5	·3
1882	279·2	284·7		277·5	
1883	291·3	298·3		290·8	
1884	292·5	298·7		291·2	
1885	289·4	295·7		288·2	
1886	285·9	293·3		285·8	
1887	289·5	297·4		289·9	
1888	301·7	310·2		302·4	
1889	325·3	331·4		323·1	
1890	351·6	357·1		348·1	·2
1891	362·3	371·1		361·8	·2
1892	360·3	369·0		359·6	·1
1893	351·8	356·6		347·3	
1894	336·7	349·3		340·6	
1895	351·7	365·8		356·6	
1896	372·8	386·8	1	377·1	
1897	396·2	411·7		401·3	
1898	412·4	427·3		416·5	
1899	432·5	447·5		436·2	
1900	466·2	477·5	2	466·2	
1901	487·7	501·0		487·7	
1902	491·6	504·2		491·6	
1903	502·4	514·7		502·4	
1904	504·6	518·2		504·6	
1905	508·7	521·8	3	508·7	
1906	518·7	532·0		518·7	
1907	543·7	557·7		543·7	
1908	565·6	580·2		565·6	
1909	558·6	573·0		558·6	
1910	583·3	598·3		583·3	
1911	598·7	614·0		598·7	
1912	628·6	644·7		628·6	
1913	670·6	687·7		670·6	

TABLE D2.—AMOUNTS FOR THE UNITED KINGDOM
(GREAT BRITAIN TO 1852-3) (£000 OMITTED).
(Partly estimated prior to 1861-2.)

Year.	Quarries.	Mines.	Iron-works.	Canals.	Rail-ways.	Gas-works.
1814-15	70	679	638			
1842-3	240	2,081	559	1,307	2,599	400
1845-6	262	2,213	923	1,261	4,007	639
1847-8	282	2,280	900	2,110	5,871	686
1848-9	333	2,434	999	1,173	6,340	710
1849-50	315	2,410	915	1,170	5,934	725
1850-1	295	2,390	870	1,130	6,208	740
1851-2	291	2,374	805	1,016	7,091	760
1852-3	315	2,340	833	999	7,876	762
1853-4	318	2,851	1,286	906	8,932	814
1854-5	327	2,937	1,378	901	9,581	824
1855-6	324	3,036	1,427	900	10,029	831
1856-7	324	3,061	1,459	909	10,721	827
1857-8	420	3,882	1,881	895	12,447	1,002
1858-9	424	3,950	1,777	873	11,646	1,041
1859-60	418	4,084	1,517	868	12,783	1,092
1860-1	420	4,269	1,619	949	13,935	1,186
1861-2	440	4,436	1,080	961	14,814	1,318
1862-3	444	4,516	1,021	938	15,125	1,392
1863-4	461	4,572	1,130	936	15,455	1,436
1864-5	590	4,829	1,798	900	16,576	1,849
1865-6	606	5,080	1,840	962	18,537	1,892
1866-7	575	5,612	2,398	823	18,878	2,151
1867-8	641	5,745	2,014	743	18,831	1,991
1868-9	646	5,480	1,911	714	19,780	1,971
1869-70	697	5,544	2,019	747	20,718	2,157
1870-1	719	5,892	2,701	774	21,956	2,605
1871-2	756	6,335	3,141	753	23,129	2,667
1872-3	763	7,283	4,762	790	25,440	2,797
1873-4	814	10,546	7,218	755	26,035	2,666
1874-5	916	14,108	7,261	1,007	26,215	2,630
1875-6	952	14,614	3,856	2,865	26,117	3,030
1876-7	1,096	14,091	2,795	3,012	27,796	3,434
1877-8	1,341	12,900	2,315	2,993	28,291	3,923
1878-9	1,356	10,088	1,934	3,125	28,959	3,973
1879-80	1,150	7,501	1,721	3,189	29,368	4,175
1880-1	926	6,667	2,179	3,196	29,131	4,505
1881-2	923	6,728	2,905	3,393	31,882	4,640
1882-3	880	6,734	2,963	3,292	32,075	4,687

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TABLE D2—continued.

Year.	Quarries.	Mines.	Iron-works.	Canals.	Railways.	Gas-works.
1883-4	914	7,065	3,011	3,365	33,053	4,879
1884-5	933	7,603	2,265	3,546	33,270	5,026
1885-6	863	7,519	1,786	3,394	32,960	4,875
1886-7	823	7,487	1,503	3,374	32,376	4,695
1887-8	816	7,152	1,216	3,226	32,685	4,681
1888-9	834	7,290	1,399	3,172	33,461	5,133
1889-90	876	7,452	1,634	3,219	34,643	5,402
1890-1	933	8,808	3,105	3,491	36,445	5,120
1891-2	986	10,872	2,979	3,431	36,177	4,608
1892-3	1,000	12,047	2,089	3,472	36,266	4,506
1893-4	1,043	12,322	1,832	3,494	35,787	4,771
1894-5	1,069	12,676	1,834	3,268	34,355	5,077
1895-6	1,145	12,278	1,934	3,561	36,461	5,959
1896-7	1,201	10,509	1,840	3,434	37,541	5,529
1897-8	1,361	9,078	2,556	3,626	39,715	5,583
1898-9	1,467	8,901	3,008	3,506	40,034	5,636
1899-00	1,582	9,492	3,212	3,477	39,358	6,053
1900-1	1,664	12,031	5,380	3,426	40,674	6,362
1901-2	1,633	17,642	6,600	3,236	38,711	5,899
1902-3	1,544	20,259	4,021	3,392	38,060	5,469
1903-4	1,687	21,194	3,415	3,516	40,607	6,776
1904-5	1,729	21,236	3,135	3,608	41,211	7,607
1905-6	1,696	20,000	2,684	3,847	41,242	7,414
1906-7	1,520	16,372	3,031	3,811	42,070	7,318
1907-8	1,400	16,400	4,500	4,200	42,689	7,600
1908-9	1,356	16,614	5,101	4,243	43,360	7,834
1909-10	1,205	18,460	3,850	4,046	41,765	7,385
1910-11	1,215	19,343	3,233	4,172	43,439	8,116
1911-12	2,607*	19,681	3,429	4,182	46,100	8,795
1912-13	2,645*	20,299	3,476	4,358	47,565	9,484
1913-14	2,578*	19,611	4,172	4,729	45,701	9,115

* Now includes Markets, Tolls, etc.

SCH. D ASSESSMENTS—CLASSIFICATION BY SOURCE OF INCOME.

The official tables give a classification of the assessments according to certain sources, viz., railways in the United Kingdom, mines, gasworks, quarries, etc., with sub-classification showing where the assessments are made, and the persons or bodies assessed in each case. It would puzzle any one approaching the subject for the first time to account for the choice of concerns which are thus separately considered. He may be seeking for information as to the profits of

banking or the cotton trade and has to rest satisfied with very precise details of cemeteries and salt springs. The explanation is simple. These concerns, known as "concerns" in No. III., Sch. A, were originally assessed as properties, under Sch. A, upon their profits, and in the classification under Sch. A, being of such a distinct character, they were naturally kept separate. This practice began under the old income tax, and was repeated after 1842. When the transfer to Sch. D took place in 1866 the division was continued, and has remained to the present day. In the last two or three years the minor concerns have not been detailed so minutely. Some of the early parliamentary returns classified Sch. A by *parishes* and divisions, so that profits in many instances could not have been kept as very confidential information..

Businesses, Professions, etc., not otherwise detailed (including Salaries of Employees).—This main class covers the whole of the assessments made under case I. and case II. of Sch. D on trades, etc., on the average of the three preceding years.

The procedure in assessments and appeals under Sch. D has been described by official witnesses :—

S. C. on Income Tax, 1851–2, Qs. 1,517, etc.

S. C. on Inland Revenue and Customs, 1862–3.

I. T. Committees, 1905 and 1906.

Details of the assessments on employees other than public officials are given separately.

Up to the 45th Report the classification had been divided into "Trades and Professions" and "Other Public Companies," and these were then merged into one. At the same time it was made possible to see the aggregate of *all* public companies, including mines, gasworks, etc.¹

Railways in the United Kingdom.—The number of assessments and the total sum assessed are given for the four territorial divisions. The sum assessed is generally less (by about 5 per cent.) than the "net receipts" returned in the Board of Trade figures, and given in the Statistical Abstract, the difference being due to certain charges not included in

¹ For the chief use made of this classification, *vide* Chapter XI., Giffen's valuation.

“working expenditure,” which are allowed as expenses for income tax. The basis of assessment is the preceding year’s profits.

Mines.—These represent only the mines situated *in* the United Kingdom; foreign mines come under the general heading. As mines are assessable where they are situate, the division into countries is rather more significant than usual, while details as to ownership by persons, firms, etc., are not without interest. As the basis of assessment is the average of the preceding five years, it is difficult to bring the figures into precise comparison with other statistics relating to mines. The 56th Report gives a *county* classification of *coal* mines, which aggregate to £18,348,000 out of £19,681,000 for all mines, showing that the other mines form but a small part of the total. These county details are not usually given.

It should be noted that all royalties are included in these assessments; even when losses are sustained,¹ the royalties and dead rents paid are charged, so that the assessments represent more than the “profits” of the trade (except so far as the allowances for exhaustion of capital expenditure in pit-sinking, etc., may not be allowable²). These royalties have been estimated at £6,000,000, but they were recently stated in the House of Commons to amount to £8,000,000.³ The Mineral Rights Duty statistics for 1913–14 were:—

	Cases.	£
England and Wales	9,105	305,190
Scotland	1,383	46,632
Total	10,488	351,822

which at 1s. in the £ equals £7,036,000 in royalties paid, or royalty equivalents taken by the owners.

It is natural, of course, that these statistics should have been well utilised in the recent controversy on profits and wages in the coal industry.

¹ *Vide* Sir Algernon West’s evidence before R. C. on Mining Royalties, 1890, Qs. 3,559—3,580.

² *Vide* p. 194.

³ There have been many extravagant estimates. W. R. Sorley (S. J., 1889), on “Mining Royalties,” quotes W. Abraham’s estimate of £36,000,000 per annum.

"As this (the assessment total) includes royalties and profits of iron, tin, lead, ganister, and other mines, as well as coal pits, and also the income from coke ovens and various by-product plants and even from wagons in some cases, it will be seen that the income from actual coal mining is likely to be something less than £14,000,000 a year, or about 1s. a ton" (*Economist*, 23rd May, 1914.)

The gross profits, less £6,000,000 royalties, = £9,000,000, or 8½d. per ton. But depreciation of leases has to come off, requiring a redemption fund of 1½d. to 2d. per ton. "So the landlords, as royalty owners, receive nearly as much from the working of the mines as the masters who provide all the risks."—Sir A. B. MARKHAM, "Coal Strike," *Quarterly Review*, April, 1912.

Mr. W. H. Mallock compares the gross profits with total selling value of coal sold from 1895 to 1909, establishing a general percentage of 16 to 17, and states that these profits include "cost of upkeep of fixed capital," which is true only to a limited extent, viz., original coal values and cost of shafts, for the rolling stock and general machinery are subject to the renewal and depreciation allowances. The selling values are not equated to the equivalent profits by bringing them into quinquennial averages, and the royalty values are not distinguished ("Statistical Monograph," No. 20).

It is of value for some purposes to consider what proportion of the total mining profit is regarded as rateable. Two Parliamentary returns have given figures for 1877 and 1890¹ in unions, and the totals are as follows:—

England and Wales (£000).

—	Poor Rate Values, 1877.			Poor Rate Values, 1890.		
	No.	G. E. R.	R. V.	No.	G. E. R.	R. V.
Coal . . .	2,688	3,394	2,777	2,104	3,602	3,086
Iron . . .	386	521	438	240	363	344
Other mines .	593	211	195	555	308	298
Total .	3,667	4,126	3,410	2,899	4,273	3,728

For further details, see H. C. 179—1899. Coal mining statistics showing the amount remaining each year 1886 to 1900 for profits and expenses, except wages. Also H. C. 197—1903 (wages and profits in coal mining, 1901 and 1902); H. C. 142—1913 (certain mining royalties in Scotland).

¹ H. C. 457—1877, and H. C. 405—1890.

Gasworks.—These are assessed on the preceding year. The great bulk belongs, of course, to public companies and local authorities, but about a hundred small private “gasworks” are also included.¹

Ironworks.—“Broadly speaking, the figures may be said to include the profits of that section of the iron trade which is concerned with the smelting of the ore, whether such profits arise solely from smelting or from smelting carried on conjointly with other industries.” The assessments are based on the profits of the preceding year. The classification into persons, firms, etc., ceased after the 55th Report.

There is sometimes a difficulty in drawing a definite distinction between iron mines (five years’ average), ironworks (one year’s basis), and general iron and steel works and manufactories (three years’ average), because some large composite concerns cover the whole field. These figures are therefore far from being a complete record of the smelting industry.²

The 1895-6 to 1901-2 assessments are quoted, as for “iron and steel works,” against protection in the staple trades, by G. Barnes, “Labour and Protection,” p. 245.

Used, though uncertain in character, by Giffen as evidence before R. C. on Trade Depression (Q. 840).

Used in evidence before the Tariff Reform Commission. Also statistics, 1897-1902, for anti-dumping arguments, by J. J. Shaw, Journal of Social and Statistical Inquiry Society of Ireland, 1904.

Waterworks.—Basis of assessment: profits of preceding year.³ This calls for little comment, except that the description is rather grandiose for some of the items included. There are 691 cases belonging to “persons,” and these

¹ *Vide* evidence by Sir A. West before R. C. on Trade Depression, 1886, Q. 863.

² The assessments number 95 (1910-11). *Cf.* the statement by Jeans (Ashley, “British Industries,” 1903, p. 19) that there are 100 concerns in the United Kingdom engaged in open hearth steel manufacture.

³ *Vide* evidence by Sir Algernon West before R. C. on Trade Depression, 1886, as to the method of charging upon water supplied beyond limits of compulsory supply, Q. 858.

include small payments for water supply, water rents, etc., which do not greatly affect the total *amount* of the assessments.

Canals, Docks, etc.—Basis of assessment: profits of preceding year. These were for many years described as “canals,” but they include docks, levels, and other similar concerns.

Quarries.—Basis of assessment: profits of preceding year. The analysis given annually shows that nearly 3,000 out of 4,000 assessments are for “persons.” The scope is wide, and covers slate, limestone, chalk, granite, gravel, sand, etc. It includes numerous small rents and royalties, but is not a good representation of the total profits from quarrying, because in many cases of gravel and sand pits for which rents are paid the *profits* obtained fall below the exemption limit, or the pits are not worked for sale or profit at all.

Other Concerns.—Basis of assessment: profits of preceding year:—

	£	
(a) <i>Markets, Tolls, etc.</i>	840,425	1910-11 (not separate since).
(b) <i>Cemeteries</i>	216,940	1910-11 „
(c) <i>Salt Springs or Works and Alum Works</i>	95,768	1910-11 „
(d) <i>Fishings in the United Kingdom and Sporting Rights in Ireland</i>	216,940	1910-11 „

The law and practice concerning the assessment of sporting and fishing rights are rather complicated. A large part of their value is assessed under Sch. A¹; the last occasion on which they were given separately was 1903-4:—Sch. A, £718,235, and Sch. D, £215,525—total, £933,760. (There is no legal power to assess sporting rights under Sch. A in Ireland, so that they are brought in under Sch. D.) These figures fall far short of the true value of all sporting and fishing rights in the United Kingdom, owing to technical peculiarities or conventions in relation to assessment.

¹ *Vide* p. 47.

Indian, Colonial and Foreign Securities (other than Government Securities) and Possessions.—The Government securities are assessed under Sch. C. The basis of assessment for the other securities, not taxed by deduction, but upon return by the taxpayer, is the current year. But the larger proportion is paid through agents and bankers who deduct tax and pay it over to the Revenue; this section is almost entirely *dealt with* in the metropolis.

The “possessions” are assessed upon the taxpayer’s return, and were until 1914 based on the average *receipts* of the three preceding years. Income from a tea plantation, or from a business abroad, would come within this class. It is a matter often of fine legal distinction as to whether a company is assessable here on its whole profits under the general case, or whether it is chargeable only upon its receipts from securities and possessions.¹ On the question of unremitted income, see Chapter VIII.

Assessments on Bankers and Coupon Dealers in respect of Coupons.—These have been dealt with by way of deduction since 1885. The Act 48 & 49 Vict. c. 51, s. 26, had an immediate effect in securing revenue that formerly had escaped.

Vide C. K. Hobson, “Export of Capital,” where the continuity of this classification materially affects the computations for the earlier years.

Railways out of the United Kingdom.—The classification is given in the usual way for persons, firms, companies, etc. This serves to mark a very real distinction that otherwise could not be made. Under this heading are included the *whole profits* of companies having their seat and direction in this country, whether such profits are remitted to this country or not, and including any shares accruing to persons out of the United Kingdom. But it also includes dividends and interest received by *individuals* in the United Kingdom from foreign or colonial railway concerns. Such dividends are very largely paid through agents and bankers, who

¹ *Vide* particularly *Kodak, Ltd. v. Clark*, 4 T. C. 549.

account for the tax. The sums under the several heads are shown clearly in the reports.

Interest from Loans secured on the Public Rates.—This was separately distinguished down to 1910–11, but is now merged. It amounted to £6,807,394 in that year. It is charged upon the sum paid in the year of assessment.

The interest arising out of the profits of municipal undertakings such as gasworks, tramways, electricity undertakings, markets, etc., is *not* included under this head, but is merged in the ordinary assessments upon those profits, and cannot be separately shown. In so far as interest is paid out of taxed profits or property (technically known as “set-offs”) it is not separately assessable. The assessments during the past ten years have been greatly affected by two important High Court cases dealing with this question,¹ and the effect is particularly noticeable in 1905–6, when the assessment fell from £9,040,000 to £6,687,000.

The true character of these assessments has been frequently misunderstood.²

Sir T. Whittaker, “Ownership and Taxation of Land” (*vide* reference on p. 294).

W. H. Mallock, “Expatriation of Capital,” *Nineteenth Century*, March, 1906.

Other Interest.—Separately distinguished to 1910–11, £5,596,282; now merged with “other profits.”

This includes many miscellaneous items, particularly small amounts of interest on inscribed stock (tax not being deducted from dividends under 50s. half-yearly), savings bank interest, and ordinary bank deposit interest.

In 1900–1 the number of cases was 35,460, and in 1910–11 it was 107,807, although the sum assessed did not increase in so great a proportion. In 1906–7, when the amount was £5,982,641, the number was 51,126 only. There has evidently been some statistical transference *from* this class *to* the

¹ *London County Council v. Attorney-General* and *Sugden v. Leeds Corporation*, 5 T. C. 242; 6 T. C. 211.

² *Vide* Chapter XII.

SCHEDULE D. PROFITS OF BUSINESS, ETC. 229

general class so far as companies are concerned. The significant increase is in *persons* :—

	Cases.	£
1900-1 . . .	33,141	1,876,305
1903-4 . . .	38,640	1,881,741
1905-6 . . .	43,841	1,790,570
1906-7 . . .	46,872	1,841,085
1907-8 . . .	57,937	1,828,384
1908-9 . . .	81,937	2,446,531
1909-10 . . .	93,902	2,312,497
1910-11 . . .	102,361	2,351,048

The rapid growth in numbers and the slow growth in amounts are indicative of the inclusion of large numbers of small sums. The effect of the legislation in 1907-8 relating to differentiation is very apparent. Large numbers of people for the first time made statements of *total income* (in order to claim the lower rate on earned income where the total income did not exceed £3,000), and these untaxed sums were in consequence disclosed. The new liability was a small price to pay for the new relief.

The high rates of interest ruling generally in recent years have also affected willingness to let sums remain on deposit with banks instead of being invested in ordinary taxed securities.

Other Profits. — Distinguished down to 1910-11 (£2,111,229).

This represents the "sweeping clause" of the whole tax. Anything that is not a trade or profession or business, and is not specifically charged elsewhere, falls to be included here. Profits from furnished lettings, rents from advertisement hoardings, casual easements, wayleaves, etc., all find their way into this class. Now included under this head, but formerly given separately, is a trifling amount for profits from the occupation of lands—the occupiers of which have elected to be assessed under Sch. D (50 & 51 Vict. c. 15, s. 18).¹

¹ *Vide* Chapter II.

“ INCOME FROM ABROAD SO FAR AS IT CAN BE IDENTIFIED.”

Under this or a similar heading, since the 45th Report, various items have been brought together from the source classification under Sch. D and Sch. C into an aggregate and presented in tabular form under three heads :—

(1) Indian Government stocks, loans, and guaranteed railways.

(2) Colonial or foreign Government securities.

(3) Colonial or foreign securities (other than (2)) and possessions, “ coupons,” and railways out of the United Kingdom, other than Indian.

The totals of these classes have been given since 1882-3,¹ but there is a little uncertainty in the classification for the early years. Reference should be made to the official tables which it is unnecessary to repeat here.

The official reports now very carefully indicate that the sums thus segregated or identified do not represent the whole of the income from abroad that is included in the tax assessments. The sums which can be officially earmarked are disclosed as follows :—

(a) Interest is paid by foreign or colonial Governments through agents appointed for the purpose. These agents have the statutory duty of deducting tax and paying it over.

(b) Dividends and interest paid by foreign or colonial companies or corporations through agents are similarly dealt with.

(c) Ordinary coupons from abroad realised by a banker or agent for the recipient are taxed upon encashment.

(d) Direct returns under Sch. D are required from recipients of income from abroad which has not been otherwise taxed. The assessments are separately classified.

(e) British companies owning and working railways abroad, the seat of management being in this country, are assessable on the full profits whether remitted to this country or not. These assessments also are separately classified.

Beyond this earmarked figure there exists a large amount

¹ 46th Report, p. 202.

of income from abroad which in many cases cannot (in the absence of details which the taxpayer alone could furnish) be identified as such in the assessments, and which is therefore included in the sum of £483,073,777 appearing under the head of "Businesses, Professions, etc., not otherwise Detailed" (see p. 171). The fact that this unidentified income from foreign countries and British colonies and possessions is of some magnitude will be appreciated when it is considered that it includes the profits derived from the following sources:—

(f) Concerns (other than railways) situate abroad but having their seat of direction and management in this country, *e.g.*, mines, gasworks, waterworks, tramways, breweries, tea and coffee plantations, nitrate grounds, oil fields, land and financial companies, etc.

(g) Concerns jointly worked abroad and in this country, such as electric telegraph cables and shipping.

(h) Foreign and colonial branches of banks, insurance companies, and mercantile houses in the United Kingdom.

(i) Mortgages of property and other loans and deposits abroad belonging to banks, insurance companies, land, mortgage, and financial companies, etc., in this country.

(j) Profits of all kinds arising from business done abroad by manufacturers, merchants, and commission agents resident in the United Kingdom.

The chief error in connection with these figures is the treatment of them, despite the above warnings, as a complete record of the income from abroad. Exactly how much the balance may be that is included in the general assessments we do not know. One writer has put it at £58,000,000 in 1907.¹ As there was no separate table prior to 1900, and therefore no official warning, it was left to individual workers to bring the several details together, unaware of the "unidentified" section. Six examples will suffice:—

(1) Giffen's work upon these statistics quite lost sight of this feature:—

"The next item, that of foreign investments not included in Schs. C and D, will perhaps excite more question. I have put

¹ For the question of evasion under this head, *vide* p. 323.

the income thus omitted at £40,000,000. . . . That there is something omitted is evident from the small amount of income from foreign investments which is dealt with in Schs. C and D. . . . It is impossible to believe that this £29,000,000 " (Sch. C, Sch. D, cases IV. and V., and railways out of the United Kingdom) " is the total income derived from the investment of British capital abroad. . . . We have also to consider that there is a large British capital invested abroad privately, through mercantile houses having dependent houses abroad, through insurance companies doing business abroad, through Anglo-colonial banks receiving deposits here and investing them abroad. . . . In what way the authorities are to get at the income which now escapes them . . ." (" Recent Accumulations of Capital ": " Essays in Finance," I., p. 170).

(2) In " The Growth of Capital " (1889) he pursued the subject on similar lines (Appendix, p. 161), and set out, from financial sources, dividends of Anglo-foreign banks and industrial companies and insurance business abroad, with which he compared the income tax figures as above (£35,000,000), showing for foreign investments not in Sch. C or D fifty millions." He did not recognise that a large part of his " omitted " income was actually assessed under Sch. D, case I., but cannot be separately identified in the statistics as foreign income.

In 1894, Harris estimated that one-sixth of the profits of public companies in the metropolis might be taken to represent this income, which was thus put at £11,000,000.¹ He subjected Giffen's " undiscovered " figure to some criticism. I have good reason to think that this estimate was modest, and that a truer figure in 1894 would have been £15,000,000 or rather more. At the present time it probably exceeds £50,000,000, when all the rubber, tea, oil, and mining companies are included.

(3) Similarly, prior to any special warning, Professor Bowley, endeavouring to ascertain the total income *taxable* at given dates, took Giffen's figures in " Recent Accumulations of Capital," and accepted Baxter's old estimate of one-fifth of " trades and professions " as escaping tax, remarking :—" There is reason to believe that much, though a decreasing proportion, of interest on investments abroad is not taxed. . . . By a careful scrutiny of import and export statistics which I made in 1891 I was able to obtain an estimate of the interest reaching us from abroad in

¹ *S. J.*, 1894, p. 537.

different years.”¹ Subtracting from these figures the amount which appears in Schs. C and D, we obtain the third line of the following table :—

Estimate of Income assessed to or eluding Income Tax
(1 = £1,000,000).

Years.	1860.	1866.	1870.	1874.	1877.	1880.	1883.	1886.	1891.
Gross income assessed	£ 322 (?)	£ 413	£ 444	£ 543 (?)	£ 570	£ 576	£ 612	£ 629	£ 698
Profits of trade, etc., eluding tax	15	22	25	35	33	32	35	35	38
Foreign investments eluding tax	39	50	52	57*	49	44	49	51	46
Total subject to income tax (gross)	376	485	521	635	652	652	696	715	782

* Dr. Giffen gives £40,000,000 for 1875, but considers that he has understated the amount.

The third line, which is the residuum after deducting the income under Sch. D *classified* as from abroad, is to a considerable extent included in the ordinary Sch. D assessments—trades and public companies. At the time Dr. Bowley wrote there were no warnings in the official reports on this point (“Changes in Wages in the United Kingdom between 1860 and 1891”).

(4) Writing since the official analysis has been made clear, Mr. Robert Walsh uses the figures to help him balance the “balance of trade” account, but quotes only the known items, and, ignoring the remainder of the official explanations, gives the “total subject to income tax £66,062,109” for 1904. His balance unascertained is then £273,937,891, viz. :—“By the estimate of George Paish, Esq., of the foreign investments in 1910, which amounted to £3,192,000,000, and yielded interest at 5·2 per cent. Deduct six years at £140,000,000, equals £840,000,000, leaving it to stand at £2,352,000,000 in 1904; this should amount to £122,304,000, and *would leave the above return short by* £56,241,891. And in addition the profits of British citizens on private foreign trading would require to amount to £217,696,000 in order that they might discharge the liabilities *contra*. If the foregoing be correct, this would show an approximate balance of British profit on foreign trade and foreign investments which remain abroad and do not apparently contribute to the taxation of the United

¹ Viz. (in million £) :—

1860.	1866.	1870.	1874.	1877.	1880.	1883.	1886.	1891.
45	60	66	79	79	76	84	96	99

Kingdom of £273,937,891. . . ." His conclusion is that this sum "probably escapes paying income tax, by which the British Treasury possibly loses £16,000,000 per annum, these profits being only available for taxation in the United Kingdom when the estates of the investors become subject to payment of death duties on such of these profits as are accumulated and capitalised" ("Industrial Economy," 1912, pp. 142, 144, 177).

(5) Mr. Mallock refers to these figures as "a very bad analysis . . . everything thrown together into the common pot of official stupidity and obscurantism," and comments upon the omission of foreign business, evidently assuming that the classification follows voluntary instead of compulsory lines. He considers that out of the remaining Sch. D assessments £77,000,000 must be derived from abroad, but this is only assumed because he finds that it remains to be accounted for! Later he says "I have shown £70,000,000 to £80,000,000. . . ."

In dealing with details he remarks concerning foreign railway stock (1902-3):—"The income which comes into the country from this source is £39,000,000, a sum larger than the profits of our entire railway system at home." This amount is made up by taking in with £5.3 millions for Indian guaranteed railways, colonial and foreign Government securities, £12.3 millions and £7.5 millions respectively, making £25,000,000, described as "Indian, colonial and foreign guaranteed railways," and adding the correct £14.5 millions for "railways out of the United Kingdom"! One is inclined to comment:—"A bad analysis and hardly free from *unofficial* stupidity" ("The Expatriation of Capital," *Nineteenth Century*, March, 1906).

(6) Mr. J. Holt Schooling similarly takes these statistics of profits from abroad in decennial averages for comparison with excess of imports without making any addition in this respect, and his whole treatment of the subject falls to pieces. On the 1901-10 average he finds a balance against us of £48,000,000, and says:—"This balance was possibly paid for by a transfer of capital securities from British to non-British ownership, the capital remaining in the United Kingdom, paying income tax and being commonly regarded as British-owned capital" ("The British Trade Book," 1911, p. 183).

REFERENCES TO USE OF THESE FIGURES.

(1) Balance of Trade Investigations.

W. H. Mallock ; R. Walsh ; J. H. Schooling (*vide* quotations above).

Sir L. Chiozza Money : "Things that Matter," 1912, p. 94.

Sir R. Giffen : " Excess of Imports," *S. J.*, 1899 ; *S. J.*, 1877 (the balance is taken to be the £30,000,000 assessed to income tax).

E. E. Spicer : " Exportation of British Capital," 1912 (gives a " balance of trade " in 1910).

Dr. C. K. Hobson repeats the official tables, with the necessary explanations, and then uses the figures in conjunction with Sir George Paish's estimate of income derived from abroad for 1907, which is taken as a basis, all the other years being computed in proportion. This assumes that the unidentified income changed in the same ratio as the identified income. My own impression is that the profits of concerns situated abroad but directed from this country have increased in a *greater* ratio during the past twenty-five years. But the method gives results for 1881, 1885, and 1895 fairly comparable with other independent estimates. He says :—" The figures of the Inland Revenue officials relate to the financial year (April to March), but for the present purpose the figures are assumed to be identical with those for the calendar year in which the greater part of the financial year is included." Of course a considerable portion of the whole represents income assessed on bases *prior* to that year. Foreign possessions are upon a three years' average. From the total obtained by the above method is deducted annually the " balance of capital and interest transactions," and the difference is attributed to " export of capital," rising to nearly £226,000,000 in 1912. Dr. Hobson ignores the important effect of the Coupon Act, 1885, upon these statistics ¹ (" The Export of Capital," pp. 199—204).

The Board of Trade Fiscal Blue Book,² 1903, contained a memorandum on the excess of imports, in which these figures are used, with the proper cautions, and the comment :—" The records . . . leave little doubt that the interest receivable on foreign investments has increased in recent years. . . . It is certain that the profits assessed form only part of the whole, and that some of these profits escape assessment, while others are not identified as foreign. It should, however, be mentioned that probably part of the increase shown in the table, especially in earlier years, is apparent only, being due to greater stringency on the part of the Inland Revenue." To the total figures in the table is added the note :—" This column includes a certain amount (from £6,000,000 to £7,000,000) in recent years exempted from the tax, mainly on the ground that it belonged to foreigners and others resident abroad." In all these investigations it must also be remembered that there are many holders of British company shares who live abroad.

¹ *Vide* p. 227. Also review of his book in *S. J.*, January, 1915.

² Cd. 1761, p. 102.

(2) Growth of Foreign Investment.

TARIFF REFORM CONTROVERSY.

Mr. Harold Cox :—" In 1885 the income returned as due to foreign investments was 35 millions ; in 1900 this had risen to 60 millions. If we assume an average rate of interest of 5 per cent., this means an increase in our capital invested abroad of 500 millions in fifteen years. Thus so far from dissipating our capital we are increasing our foreign investments at the rate of about 30 millions a year " (" The Effect of the Corn Laws : A Reply," *Nineteenth Century*, February, 1903).

**"EXPORT OF CAPITAL—Driving Capital out of
the Country."**

J. R. Macdonald : *Financial Review of Reviews*, April, 1909 (1906-7 figures quoted, and multiplied by 20—on a 5 per cent. basis—give £1,591,000,000, "altogether an underestimate." "Probably 50 per cent. of income derived from foreign investment is never disclosed." The "complete" fallacy is repeated).

A "Financial Expert" : *Socialist Review*, March, 1909 (quotes increase from 1886 to 1906, and uses a 5 per cent. basis).

FOREIGN INVESTMENT GENERALLY.

"The analysis . . . brings out the fact that there has been a very great increase in the amount taxed on the declaration of bankers' agents, etc., which means that the Commissioners are getting into their net a great deal of taxable income that formerly escaped . . . the rate of interest is also higher than it used to be. . . . These two considerations mean that the value of British capital abroad has probably not risen nearly so fast in the last ten years as the figures of income would suggest " (*Economist*, 1913, p. 879 ; and similarly, 1910, p. 552).

Sir L. Chiozza Money : "Things that Matter," 1912, p. 94 (comparison with ocean tonnage, and shows our increasing power to invest abroad).

R. C. on Financial Relations, 1896. Giffen made an estimate of £80,000,000. The Inland Revenue estimate was £60,000,000 to £70,000,000 (Q. 8,128).

Sir E. Speyer : *Journal of Institute of Bankers*, 1905 (capitalises at twenty years' purchase).

(3) Profits and Comparison with Wages.

"Mercatante," replying to W. T. Layton (*Economist*, 1911), deducts £58,000,000 for business abroad worked from the United Kingdom in 1907, and £15,000,000 invisible investments, or £73,000,000 in all. He deducted 12½ per cent. of the income from abroad as belonging to the foreigner, and having no "influence on the home rates of pay"—£18,000,000 unconnected with wages here.

Mr. Mallock assumes £180,000,000 as the income from abroad included in the income tax total. He deducts this sum to arrive at the home-produced national income, and also to get a "general comparison between profits and wages" in refutation of Marxian contentions. But he does nothing further towards deducting from "labour income" that which is not gained in competition with capital on material production ("Social Reform," p. 123).

Other estimates of the interest from abroad and capital exported are :—

E. Crammond, 1911 : £180,000,000 income and £175,000,000 exported (*Nineteenth Century*, March, 1912).

Sir T. Whittaker, 1907 : £240,000,000.

SCH. D ASSESSMENTS—CLASSIFICATION BY PLACE OF
ASSESSMENT : COMPARISONS.

A warning was given in the 12th Report "against an implicit reliance upon the inferences which the mere figures appear to warrant," and it was pointed out how easily the most erroneous conclusions may be drawn.

The danger is present whenever direct comparison is made between assessments in England and Ireland. "London is the great central establishment of banks and public companies of the United Kingdom, and of many which carry on their business in the colonies and in foreign countries. The investments of the Irish themselves in Irish companies are assessed not infrequently in London, where the head offices of the companies are situated."

A recent example of this class of inference was Mr. John Redmond's speech at Newcastle on 14th November, 1913, when he quoted a House of Commons return of December, 1912, and used the Sch. D figures of Dublin in contrast with those of Belfast.

A letter in *The Times* (27th November, 1913) drew attention to Mr. Lloyd George's comments in debate on the system of central assessment, giving Dublin the "credit" for (a) salaries of officials; (b) interest paid by Land Commission; (c) income of the representative body of the Church of Ireland.

CLASSIFICATION BY OWNERSHIP.

"PERSONS," "FIRMS," ETC.

The well-known tables classifying the assessments under Sch. D and Sch. E have appeared from time to time in the Board's Reports (from the 10th down to date), but with many changes in form which are only discernible upon very close inspection. These changes in what appears at first to be a uniform series, together with the inherent difficulties of the classification, have led to many erroneous uses, and one is well advised to leave the tables alone altogether, so far as historical comparisons are concerned, unless prepared to study them thoroughly, and indeed minutely, before drawing any inferences. For the benefit of any who may wish to use the old tables for comparative purposes a note is appended to this section, classifying the sources of information, and the chief differences and difficulties that occur through the series. Many hours have been spent in analysis of the earlier returns, and light has been thrown on not a few obscurities, and much recomputation of estimates for small disturbing elements not previously taken into account has been necessitated: it would be a pity if any other investigator had to go over the ground again without the benefit of these labours.

This section will be devoted to the classification as it is rendered in the present Reports.

The tables represent classifications of assessments or parts of incomes, and *not* of individual incomes. It is necessary to repeat this warning with great frequency and insistence, because here lies the *pons asinorum* of many writers on the distribution of income. In the weekly papers of the "snippets" type it is not uncommon to see such a paragraph
 s "There are twenty-five people in Scotland with over

£50,000 a year," which has its origin in a cursory perusal of these tables. The mistake continues to be made although the official explanation is very clear and is repeated annually; the report sets out a hypothetical composite income of £5,000 to show that out of ten component items three would not appear in these tables at all, seven appear in various parts of the table, and the whole sum does not appear at all. Scorn has been poured upon the repeated appearance of this interesting phantom, but it is quite probable that its suppression would lead to a recrudescence of erroneous inferences.

There is a general looseness in the use of the word "income":—

"Twenty-six employees under Sch. D and 406 under Sch. E are returned as having incomes exceeding £3,000 a year each, and of these 106 with incomes of more than £5,000 a year each were assessed for an aggregate income of £1,038,124" (Whitaker's Almanack, 1908, p. 663).

Mayo-Smith recognises that they are not total incomes, but does not realise that they are not even total Sch. D incomes:—"Men are arranged in certain classes according to their incomes, but these are only the *incomes* they declare under that head" ("Statistics and Economics," 1899, p. 426).

Others who have confused "incomes" and "assessments" include:

H. Morgan Browne, *New Liberal Review*, 1902.

Mallock, "Progress and Property," pp. 209, etc.

Soetbeer, *Zur Einkommenstatik von Preussen, Sachen und Grossbritannien, nebst Bemerkungen über Einkommenbesteuerung*. These are compared with "incomes" in Prussia. See also *Economist*, 10th December, 1887, and S. J., 1888.

Take first the class "**not exceeding £160 but not exempt.**" It may include, under "persons," £5 bank interest (for a person with a very large income); £100 literary profits for a Cabinet Minister; £150, "abated £150," for a small grocer who has a house worth £15 per annum. Under "firms" and "public companies" it may include very large concerns which have been doing badly, and have but a small assessable profit, or are liable on a small amount of "interest

paid." Under "local authorities" a dozen small assessments on different items of interest or other liability for different funds of a great corporation, as well as interest, etc., for parochial bodies, may appear. Under "employees (D)" are included chiefly assessments on employments which form part of small total incomes (*i.e.*, £130 abated for a clerk whose wife has a little house property); but "employees (E)" includes many fees for directors with large incomes, or, for example, a council clerkship held by a wealthy country solicitor, or small appointments held by a medical man. In fact, cases exist in which one person holds a dozen or even a score of small appointments which aggregate to a respectable income, but all of which figure in this class.

Examination of the figures for a series of years reveals some curious results, which are explainable only upon the lines of administrative change. For example, the number of persons dropped from 1904-5 to 1906-7 and the average amount dropped also. There was a sudden rise in 1907-8, and again in 1909, extraordinary in numbers, but the average continued to decline. The first was due to the elimination of many cases which, though actually exempt, had been included in the assessments for administrative reasons and allowed as fully abated, with no significance so far as net duty was concerned. The second was due to the 1907 and 1909 legislation, which, in differentiating between various classes of income, necessitates a careful separate enumeration of small items of interest, etc., that had previously been treated less strictly, and assessed with other items. It is unsafe to draw many inferences from this class by itself. All through, however, it may be taken that the tendency has been of late years towards a more precise assessment of separate sources of income and a more detailed treatment statistically.

Just as it is important to note that any one assessment may be only a *part* of an income, so it is equally important, especially in the higher classes, to note that any one assessment may be *more* than one person's income. All the Sch. D assessments cover interest *paid* by the persons

assessed, so that an assessment of £40,000 may represent £30,000 to the proprietor and £10,000 interest on borrowed capital. This is equally important in the case of firms. If two partners are working a colliery, and the assessment is £30,000, it may include a very large payment for royalties to a third person. So, also, it should be observed that all the figures in these tables are *gross*, prior to the deduction of depreciation.

The chief use made of these tables has been for the determination of the *distribution of incomes*. Dr. Bowley, with a full knowledge of their difficulties, utilised them before the Income Tax Committee of 1906,¹ reducing the "firms" to "persons" by a multiple of $2\frac{1}{2}$, and comparing the results with a Pareto graduation.² The treatment assumes that there are no duplicates, and that the persons and employers are all distinct. Public companies were omitted, and the table was intended to refer to "earned income." It will of course be evident from what has been said that under "persons" and "firms" (apart from the compromise which treats interest on a business man's own capital as earned income) are many assessments upon foreign possessions, interest, royalties, etc., and there is therefore much that would be duplicated with his Table III., "unearned income," based upon the Estate Duty figures, if these were not deducted. The various Sch. D tables show separately the numbers of assessments, persons, firms, etc., on interest, foreign securities, etc., and if all these are first deducted from the total of these classifications, and the net total redistributed over the several classes, a much finer result for "earned incomes" distinct from the Estate Duty classes is obtainable.

Dr. Bowley has suggested that a sufficient number of samples to total incomes would show how many duplicated "persons" appear in these tables³; but this of course would be only a partial test, as the range of returns of total incomes is limited to claims for abatement, earned rate and supertax.

Mr. Mallock's use of the tables shows that he has not been fully alive to their difficulties. He brings them into direct

¹ Table IV., p. 223, and Q. 1,197.

² *Vide* p. 464.

³ 1906 Report, Q. 1,240.

comparison with abatements, and naturally finds "inconsistencies" :—

" Out of the 622,000 abatements actually claimed and granted one single class, namely, the salaried employees of the Government, companies and private firms, will account for 440,000, or more than two-thirds of the whole. . . . The total number of salaried employees assessed in 1905 was 502,000, and of these about 60,000 earned more than £400 a year." (The *actual* figures are 503,000 and 54,000, leaving 449,000. Of these 168,000 were under £160 (average £66 each), and therefore *parts* of incomes only.) He goes on :—" It is impossible to suppose that there are only 230,000 other persons enjoying similar incomes, when we realise that the shopkeepers are estimated to number at least 450,000 ; that the farmers occupying from 50 to 500 acres number about 160,000 ; and that there are at least 90,000 persons whose main means of subsistence are derived from pensions, annuities, and investments in Government stocks or companies. Of these 650,000 persons (more or less) the probabilities are that at least 400,000 have incomes exceeding £160, but not exceeding £400 ; or in other words, that the total number of such incomes, instead of being 670,000, are substantially in excess of 840,000."

Of Mr. Mallock's total of 700,000 persons he regards 400,000 as entitled to the £160 abatement, but adds only 198,000.

The number of shops charged to House Duty in Great Britain was 307,000, of which only about 100,000 exceeded £40 in value, and this may be taken as a minimum figure for liable shopkeepers. While we are discussing income tax abatements we must adhere to the conventions of the tax, and reference to Sch. B will show that the liable farmers would not exceed 10,000 in number (a figure borne out by the House Duty numbers). There is nothing really inconsistent between the *numbers* of assessments as revealed and the numbers of " official abatements."

Mr. Mallock says :—" Mr. Bowley's estimate of 163,000 on the number of incomes between £400 and £700 may, by parity of reasoning, be regarded as similarly deficient, the true number being probably over 200,000." There is no " parity " because full effect has already been given to the considerations he urges in the treatment of incomes below £400. He then adds the two results, making 1,040,000, and says " even this must be set aside as too low, when we find that the number of incomes between £160 and £700 assessed under Schs. D and E alone is some 930,000, exclusive of all those derived from Government stock, from public companies, and those also derived from agricultural land and houses. All things considered, then, the number of

assessments on incomes not exceeding £700 a year would probably amount to something like 1,400,000, and the number of individual incomes, allowance being made for plural assessments of the same persons, would be 1,200,000." His "separate assessments" are made up of "persons," "firms (two and a half persons to a firm), about 28,000 very small companies, which must really be personal ventures, and about 460,000 salaried employees" ("The Nation as a Business Firm," p. 55). The conclusion is certainly not justified from the figures. If two and a half persons exist to each firm, obviously only the firms exceeding £400 should be counted. The inference about the "very small companies" is very doubtful—so many represent the composite investments of much wealthier people, probably to the extent of half the number; while the influence of "plurality" is quite underrated.

In a similar treatment elsewhere Mr. Mallock makes the same doubtful comparisons:—

He takes (for 1905) persons 380,000, firms ($60,000 \times 2\frac{1}{2}$) 150,000, and employees 500,000—a total of 1,030,000; and after pointing out that no income from property, farming, investments in stocks, etc., is included, remarks:—"Since, then, these incomes alone exceed Mr. Bowley's estimate of all incomes taken together, it is evident that, all allowance being made for multiple assessments, this estimate must fall far short of the truth."

The assessments "not exceeding £160" under "persons" and "employees" amount to 290,000, and it may safely be said that the bulk of these represent "multiple" assessments. This fact also robs Mr. Mallock's further comparison of its value, viz., Dr. Bowley's 833,000 incomes between £160 and £700, and the number of "such incomes assessed under Schs. D and E alone," 930,000 (although by his method of computation for firms it is actually 946,000).

Sir L. Chiozza Money used these tables in a similar way to ascertain the Schs. D and E income of persons with over £700 a year. The "persons" and "employees" added to the "firms" (resolved into individuals by the multiplier 2.5) gave, for 1903-4, 52,728 persons possessing upwards of £700.¹ These are added to numbers of persons (in each grade) enjoying property (derived from the Estate Duty returns). Sir L. C. Money treated them all as separate "units" or distinct individuals for convenience, and, though he recognised that identity of persons in the two tables was obvious, he does not seem to have referred to the possibility of duplicating the *income* by this method. But it is quite certain

¹ Minutes of Evidence, 1906, p. 62.

the Sch. D tables include a great deal that is interest on capital which pays Estate Duty. Both persons and incomes were so far below the figures required by other considerations that this seemed an unnecessary refinement leading in the wrong direction, but a reconciliation is impossible upon Estate Duty lines.¹

Mayo-Smith compares *persons* 1843 and 1879 (as to the classes "under £150 and not exempt" and "£150 and under £200") with 1896-7 (classes "under £160 and not exempt" and "£160 and under £200"). "I take it that these two should be added together for purposes of comparison with the earlier years. The smaller and medium incomes seem to hold their own very well" ("Statistics and Economics," p. 425). The effect in the change of the exemption limit from £150 to £160 is not grasped (*vide* Appendix I.).

FIRMS.

It will be obvious that there is a continual drain from this category to "Public Companies," owing to the constant conversion of established businesses into companies²; for the term "public companies" covers also "*private* limited companies" under the Companies Act, 1907. The following stages are instructive:—

Year.	Firms.	Companies.	Total.
1904-5	59,227	31,408	90,735
1906-7	58,049	33,508	91,557
1908-9	53,663	37,937	91,600
1910-11	54,041	41,933	95,974
1913-14	57,822	50,466	108,288

The 1908-9 reduction in firms was in *spite* of 1907 legislation, which in the ordinary course would have added to the number. It was no longer permissible to deal with partners separately (a practice which had previously not been uncommon for professional partnerships, doctors, solicitors, etc.), but they had to be assessed in one sum, counting as "firms." Hence there was transfer from persons to firms, which is quite masked by the transfer from firms to companies.³

¹ *Vide* Chapter XI.

² *Vide Economist*, 1913, p. 878.

³ Finance Act, 1907.

The quotations on p. 243 raise a question which is important when these tables are being used to determine numbers of taxpayers or distribution of income, viz., the average number of persons in a firm. This point was discussed in connection with Dr. Bowley's tables before the Select Committee of 1906.¹ It appeared that statisticians thought vaguely that the number would be greater than two, and two and a half was a reasonable figure.

"It seems quite possible that the high incomes dated as belonging to firms may belong to firms with great numbers of partners. That should increase the divisor as you go up the scale. That would bring a perceptible amount of income below £5,000."—"I think you will find that once you begin to find firms with £10,000 and upwards, they would want more than two and a half partners? It would bring less than £200,000,000 over £5,000 a year, it would knock £10,000,000 to £20,000,000 off."

Sir L. Chiozza Money dealt with the same point, and suggested a sample investigation.² He used 2·5 as a multiplier. Mr. J. Ackland uses 3³; Zorn 4 as a fair average, and 5 for higher ones.⁴

In order to settle this question I have made observations equivalent to a sample of a considerable number of firms,⁵ amounting to one-eleventh of the whole. In order to ascertain that it was an unbiassed sample the known total number of firms from the Board's Report was distributed into classes (amounts of assessments), according to the proportions shown by the sample. The results were compared with the actual number in each class given officially and found to agree very closely. It may therefore be considered to be a reliable index to the general conditions. The average number of partners for all firms is 2·4, and this is also the average for firms "under £160 but not exempt." This class does not necessarily consist of small businesses, but includes

¹ Qs. 1,193-6, 1,230, 1,258-9, 1,308-13.

² Qs. 546-8.

³ "The Revolution in the Incidence of Taxation," *Contemporary Review*, May, 1901.

⁴ "Incidence of the Income Tax."

⁵ With the assistance of personal friends in the Inland Revenue Department, who have made similar observations on lines suggested by me.

assessments on items of interest paid for large firms making losses, or on items of interest received by bodies of persons of varying numbers.

The classes then proceed in regular progression :—

£160—400	2·16 partners.
Exceeding £400— 700	2·30 „
„ £700— 1,000	2·40 „
„ £1,000— 2,000	2·49 „
„ £2,000— 3,000	2·71 „
„ £3,000— 5,000	2·84 „
„ £5,000—10,000	2·89 „
„ £10,000	3·75 „

Grouping these results into larger classes to see the broad effect, we find the percentages of each large class having different numbers of partners as follows :—

Class.	Two Partners.	3.	4.	5.	6.	7 or more.	Total.
Not exceeding £160	81·6	12·4	3·1	1·3	·5	1·5	100
£160 to £2,000 .	78·7	15·4	4·2	1·1	·3	·2	100
£2,000 to £10,000 .	50·8	30·5	13·4	3·4	·7	1·1	100
Over £10,000 .	23·5	32·5	15·7	11·8	11·8	5·0	100
All firms	74·7	17·1	5·4	1·6	·6	1·2	100

This table is illustrated by the accompanying graph, which shows the totally different distribution of the largest firms.

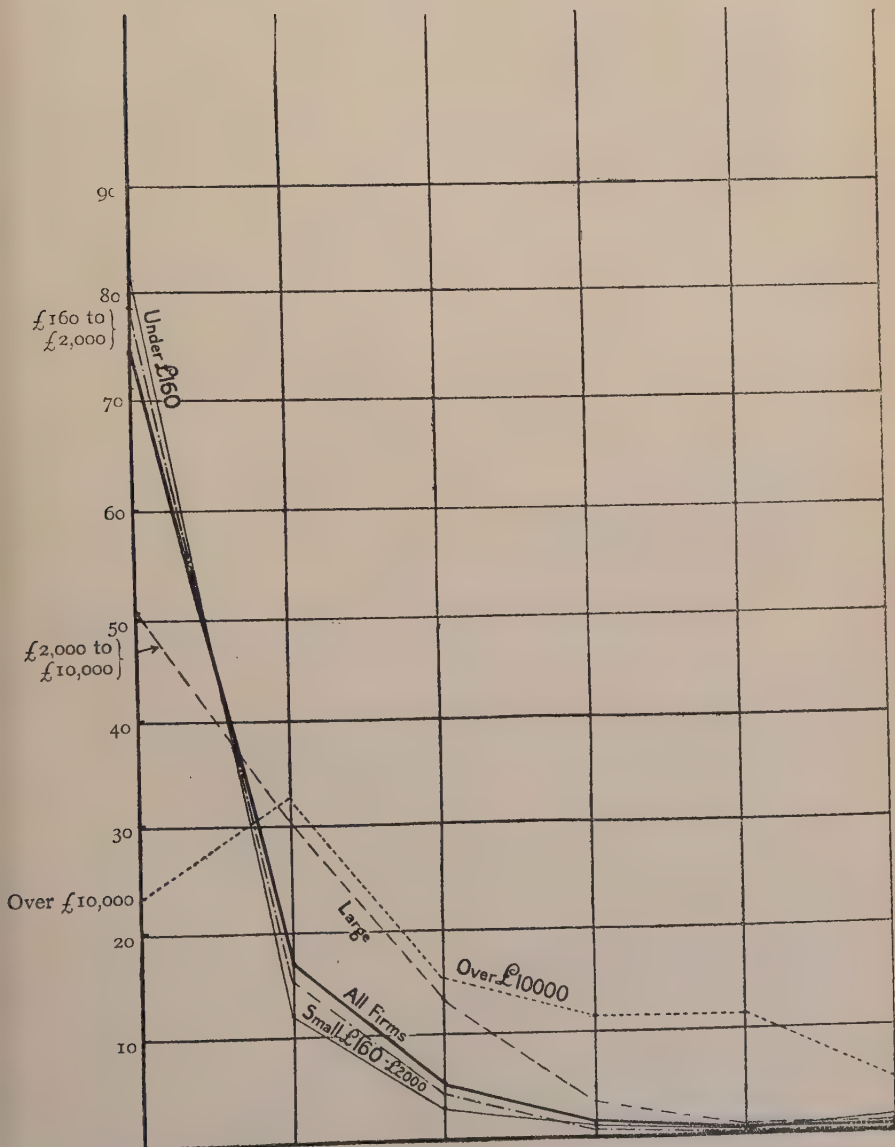
PUBLIC COMPANIES.

It has already been explained that this category includes private limited companies, which are now very numerous, and constant transfers from firms are taking place. Well over one-third of the companies are in the lowest grade, “ not exceeding £160 but not exempt.” There is of course no exemption for a company, however small its profits, so that the application of the title is somewhat different from that of the other columns, “ persons, etc.” It does not by any

GRAPH. VII.

PERCENTAGE OF FIRMS IN EACH CLASS HAVING

2 partners 3 4 5 6 7 and over.



means follow that only companies of small capital appear in this class, because where losses are being made, or there is practically no working, there is frequently a minimum liability on interest to be charged.

Quoting the figures for 1905-6, Mr. Mallock takes the 5,500 companies with profits over £5,000, and says :—" Of the gross income of £222,000,000 the following items can be identified " :—

	Mr. Mallock's Figures.	Maximum possible Figures.
	£	£
Railways in the United Kingdom	41,000,000	41,200,000
Mines	20,000,000	16,600,000
Gas and waterworks	11,000,000	6,000,000
Production of iron	2,000,000	2,500,000
Loans secured on rates	6,000,000	
Foreign railways	16,000,000	10,000,000
Indian and colonial securities	14,000,000	1,000,000
Coupons from abroad	12,000,000	
Total	122,000,000	77,300,000

The right-hand column shows the *maximum* sum under these heads that *can* possibly form part of the £222,000,000 referred to. Mr. Mallock has misunderstood several points. In the first place, he has assigned to " public companies " the total profits, under each description, going to persons and firms (with which he has already dealt) and local authorities as well as to companies. Secondly, even the £77,300,000 is too much, because it represents all public companies under these heads, and not merely those " over £5,000," so that it cannot be said with certainty how much of it forms part of the total £222,000,000 which is being analysed. Thirdly, two items are wrongly included, as the tables give them in adjoining columns, and they are thus clearly no part of " public companies." There is no erudition about these corrections, as the official headings and tables are unmistakably clear.

Mr. Mallock goes on to say that out of the £220,000,000 the following parts are " unearned " :—(1) Railways, home and foreign, £57,000,000 ; (2) loans secured on rates, £6,000,000. . .

It is thus clear that Mr. Mallock does not understand what "loans secured on rates" are, although the official heading "interest from loans secured on public rates," and the sub-reference to municipalities should have sufficiently indicated that they have nothing whatever to do with public companies ("The Nation as a Business Firm," p. 127).

Mr. Mallock sets against the £3,000,000,000 of paid-up capital in our companies in 1905-6 the total profits assessed, and remarks:—"The dividend yielded by this capital was £247,000,000, or over 8 per cent." But the capital is for about 39,800 companies, and the profits represent 32,422, so that 7,400 companies are making no profits, or losses which should be deducted from the assessed profits before this composite dividend of 8 per cent. can be declared. Moreover, share capital is a very deceptive test, for the assessments include interest paid upon debentures, loans, mortgages, etc., as well as all the reserves for depreciation, etc. ("The Nation as a Business Firm," p. 130).

Zorn assumed an average return of 7 per cent. ("Incidence of the Income Tax").

Zorn attempts to deduce the number of taxpayers included in the "public companies." Because the companies and paying agents account for 46 per cent. of the tax under Sch. D, he makes them equivalent to this proportion of new taxpayers:—

Direct payers (persons and employees)	.	819,242
Firms $\times$ 4		232,188
		1,051,430
$\therefore$ Public companies and agents will be	.	895,644
		1,947,074

The two classes of income are not comparable, and the number of duplicates is so great, that the method has no reasonable basis.

Goschen tested, by sample, the number of shareholders in companies, and concluded there had been a general increase (*S. J.*, 1888, quoted by Mayo-Smith, "Statistics and Economics," p. 428).

LOCAL AUTHORITIES.

The assessments made on local authorities under Sch. D are made for industrial undertakings just as they would be if they were owned by companies. But by far the greater

number of the assessments are upon interest paid (secured on the rates).¹ The assessments are classified separately under "waterworks," "gasworks," "markets, tolls, etc.," and give a fairly exact statement of the profits of municipal enterprise. In a special return² reprinted for the Joint S. C. on Municipal Trading³ the net profits of municipal industrial undertakings are given as follows (five years to 31st March, 1898) :—

England, £3,613,668 ; Scotland, £181,327.

Waterworks, separately, were—England, £1,744,361 ; Scotland, £44,662.

Gasworks, separately, were—England £1,180,208 ; Scotland, £54,773.

A similar return for four years to 31st March, 1902,⁴ gave waterworks £2,032,756 and gasworks £1,367,735, which may be compared with tax assessments (for 1900–1) £1,904,261 and £1,642,943 respectively.

There is, of course, a slightly artificial element about the profits of municipal enterprise which may proceed on a policy at various points between cost of service and maximum commercial yield, according to the particular prevailing theory. If there is a profit-making policy in relief of rates, so much the better for the income tax ; but frequently the transferred taxed profit reduces the liability on general interest payable, so that the *total* tax paid is not affected—it is only differently distributed over the assessments. It may be stated with regard to municipal lighting that the book-keeping profit made on supply to various corporation departments is eliminated from the assessed profit, which is upon public supply only. "Profit" made as the result of a compulsory rate is not assessed.

EMPLOYEES (D AND E).

The relation of these two classes has been examined on pp. 214 and 266, and the stationary character of the numbers

¹ *Vide* p. 228.

² H. C. 88 and 347—1898.

³ P. 377.

⁴ Joint S. C. on Municipal Trading, 1903, p. 233.

under Sch. D is explained. It is to be noted that the majority of cases "not exceeding £160 and not exempt" are those of persons with small salaries, who own property assessed under Sch. A; the bulk of the assessment is therefore "abated," leaving any net liability to be dealt with on the latter. The large decrease in 1906-7 is explained on administrative grounds, many cases being excluded that had previously counted as assessments. The rapid increase in 1908-9 was due to the effect of special legislation in 1907, which rendered returns of wages and salaries compulsory from employers, and brought into assessment numerous small cases, without of course greatly affecting the net yield of the tax.

The question of workmen on weekly wages evading the tax is dealt with under "Evasion," Chapter VIII.

Use of Classification to show Progress in Different Classes.

Porter: Classification, 1812 and 1848, used to trace accumulation and as to the ground for suspecting disappearance of the middle classes (*S. J.*, 1851).

Soetbeer: *Zur Einkommenstatistik von Preussen*, etc., and *S. J.*, 1888. Suggests that the decrease in the higher classes of "trades and professions" is due to formation of limited companies.

Goschen: Increase of moderate incomes (*S. J.*, 1887, p. 589). Percentage increase in each class for ten years. General discussion of the tables as "incomes."

S. C. on Income Tax, 1851-2. Used H. C. 90-1816 and H. C. 27-1857 to compare distribution. In 1812 24·7 per cent. of the persons were over the £500 line and had 67·17 per cent. of the income; while in 1849 18·27 per cent. of the persons had 61·06 per cent. of the income.

Giffen: "Progress of the Working Classes" ("Economic Inquiries," I., p. 415). Compares 1843 and 1879. He concluded that the increase in the assessments between £150 and £1,000 is a sign of the increased earnings of the working classes "out of all proportion to the increase of population."

Sir Algernon West: Average amount of assessments—(a) trades and professions; (b) public companies, 1876-7 to 1883-4; and assessments, Schs. D and E (excluding Government servants),

1864-5, 1869-70, 1874-5, 1879-80, and 1882-3, in classes "under £400" and "over £400," with percentage to population in each case. R. C. on Depression of Trade, 1886—tables and Qs. 874, 882, etc.

Mayo-Smith: "The statistics fail to show any marked concentration in the hands of a few" ("Statistics and Economics," 1899, p. 426).

De Foville: "Wealth of France and other Countries" (S. J., 1893, p. 618).

Colson: "Cours d'Economie Politique," II., p. 314; "La répartition des Revenus."

Sch. D Classification : Interpretation—Miscellaneous Examples.

"The gross income brought under review is £943,702,014, deductions are given as £303,653,776, and the income on which tax was received is returned as £640,048,238. The resulting difference of £24,686,874 between this sum and the £615,801,364 appearing in the summary is presumably accounted for by a number of composite incomes, which are referred to on p. 188."—J. C. L. ZORN, "The Incidence of the Income Tax."

He then quotes the official warning. He has confused the gross and net *total* tax assessments with the Sch. D classification, and quite misunderstands the "composite" income difficulty.

K. K. Kennan, quoting 1906-7 figures, gives the Sch. D total assessments as 578,600, "of which 476,404 were upon individuals and the remainder on firms and public and private corporations." But, misinterpreting the summary at the foot of the classification, he adds, "to these figures might be added employees (Schs. D and E) 519,189, making a total of 1,097,789" ("Income Taxation," p. 72). The first number already includes the Sch. D employees, and his correction of Pepper's report is wrong.

Note upon Classification of Assessments, Schs. D and E : Note upon Sources and Changes in Form.

The primary source of information was a periodical return to an order of the House of Commons. Reference to these returns is sometimes necessary, because, although subsequent reports have apparently often repeated them, there have been important omissions. The returns are as follows :—

Tax Year.	No. of Return.	Session.	Tax Year.	No. of Return.	Session.
1842-3	315	1844	1867-8	397	1873
1843-4	107	1846	1868-9		
1844-5			1869-70		
1845-6	747	1847	1870-1		
1846-7	317	1849	1871-2		
1847-8			1872-3	298	1879
1848-9	27	1851	1873-4		
1849-50	480		1874-5		
1850-1		1852	1875-6		
1851-2	616	1853	1876-7		
1852-3	341	1854	1877-8	234	1885
1853-4	482	1855	1879-80		
1854-5	313	1856	1880-1	No details furnished.	
1855-6	69	1857	1881-2		
		Session 2.	1882-3		
			1883-4	234	1885
1856-7	465	1858	1884-5	No details furnished.	
1857-8	119	1859	1885-6		
		Session 2.	1886-7		
			1887-8	228	1890
1858-9	501	1860	1888-9		
1859-60	509	1861	1889-90	No details furnished.	
1860-1	466	1862	1890-1		
1861-2	526	1863	1891-2		
1862-3	565	1864	1892-3	165	1894
1863-4	469	1865	1893-4	322	1895
1864-5	488	1866	1894-5	216	1896
1865-6	527	1867			
1866-7	460	1868			

The returns for 1842-3, 1843-4, and 1844-5 are simple tables of duty *collected*, under each schedule, and under each class of Commissioners. The return for 1845-6 gives the first classification proper, “£150 and under £200,” etc., for both schedules, with particulars of “income on which duty is charged,” “amount of tax received from each class,” and “number of persons in each class.” *Only the last-mentioned column is totalled.* The tables of “duty collected” are given as in previous years. The returns for 1846-7 down to 1853-4 inclusive are uniform with this, except that Ireland is introduced (but kept separate) in 1853-4.

In 1854-5 the tables were changed from “duty collected” to “duty assessed,” the classification remaining as before, and it would naturally be expected that the total of the classes should give the same “amount of tax received” as the tables. But upon aggregation it is found that there is a material difference. The first year in which the classes are totalled, and the discrepancy therefore revealed without close investigation, was 1856-7; at this point, however, it is smaller than before, and it disappears

altogether in 1860-1 and subsequent years, when the totals in the classification and the totals in the tables agree. If we substitute for the "duty collected" in the earlier returns the "duty charged" shown in the 13th Report, we can carry back the differences to 1844-5. An inspection of the tables in this report will show that the duty at 7*d.* on the net assessments (from 1845-6 to 1852-3) never works out at the "duty charged." The explanation of these facts is given hereafter, but it would be tedious to exhibit the evidence for this explanation in full also. (a) The existence of the "composition duty"¹ down to 1860-1, which was not included in the tax charged in the classifications but *was* included in the totals in the tables. (b) The *duty* on additional assessments made after the time when the surveyors sent in their classifications was added as a *lump sum* to the total duty, but the tax in the classes was left unaltered. Hence, down to 1853-4 the total assessments given in the official reports are deficient to the extent of these additional assessments. (For the years 1842-3 to 1844-5 there is evidently no record of the exact "duty charged," and it is given in the 13th Report as exactly 7*d.* in the £ on the net assessment, omitting both composition duty and additional assessments.) After 1853-4 the whole of this difference is due to composition duty. The early parliamentary returns should only be used in so far as they contain information omitted from the 13th Report (*i.e.*, *duty* charged on each class, and the whole of the Sch. E classification), because the recapitulation in the report is later and more correct, avoiding various printer's errors in the returns. Moreover, details can safely be extracted from the returns for use with the report only after totalling the return and establishing the identity of the totals: for example, the assessment and duty for Sch. E in the report are throughout in excess of the assessment and duty totalled in the returns to 1853-4.

Under Sch. D the table on p. 255 shows the additions to the assessments in the 13th Report which the omission of "additional assessments" necessitates.

Changes in Methods of Classification for these Tables.

From 1842-3 to 1852-3 there were no deductions, so that gross and net assessments were alike. The classification is therefore one of gross assessments.

From 1853 life insurance was a deduction (also expenses under Sch. E) and the resulting *net* assessments were classified.

From 1863-4 abatements were also a deduction and the net assessments continued to be classified, the effect being, of course,

¹ P. 207.

much more important in this case ; but down to 1868-9 the classification was determined by the gross amount of income (excluding insurance and expenses).

In 1866-7 public companies were first excluded from the classification.

In 1869-70, although the net assessments continued to be classified, they were no longer classified by the income plus abatement, but actually by the net, *i.e.*, £130 minus £60 abatement, £70 net, would have been classed £70 under the heading " £100 and under £200 " prior to 1869-70, and under the heading " under £100 " subsequently.

Year.	Difference.	Composition.	Balance Duty due to additional Assessments.	Additional Assessments. (ooo).
	£	£	£	£
1842-3 } 1843-4 } 1844-5 }	None ; gross assessments computed from duty without composition.			
1845-6	17,353	6,926	10,437	358
1846-7	15,296	6,922	8,374	287
1847-8	18,610	6,896	11,714	402
1848-9	10,085	4,440	5,645	193
1849-50	12,527	4,440	8,087	277
1850-1	15,630	4,440	11,190	384
1851-2	10,295	—	10,295	353
1852-3	12,149	—	12,149	416
1853-4	24,834	4,420 est.	20,414	700

In 1873-4 the classification was again *determined* by the gross amount of assessment, as prior to 1868-9, but in this year it was really *gross* and included life insurance. The whole classification is however still one of *net* assessment.

From 1877-8 the detailed classes under Sch. E were abolished, and only two given—(1) £150 to £400, and (2) over £400.

In 1894-5 the Sch. E details appeared under these two classes, for the last time. The Sch. D parliamentary return is on the old lines, and the same details appeared in the 39th Report (except the duty in each class). It was still a classification of *net amounts of income after allowance of abatements, etc.*, but classified according to the gross assessments. Scotland is, however, given separately from this date.

In 1898-9 the present system began. Sch. D classification of *net* assessments was abolished and classification of gross assessments began. Instead of confining the tables to "persons and firms" under one heading, the details are given separately for (1) "persons"; (2) "firms"; (3) "public companies"; (4) "municipal corporations and other local authorities"; (5) "employments"; and separate tables for England and Wales, Scotland, Ireland, and the United Kingdom are given.

Sch. E.—A full classification on lines similar to Sch. D. This method has remained unchanged (1914-15).

The 13th and 28th Reports give a valuable summary of all the Sch. D classifications down to those years, *omitting the duty columns*.

DEDUCTIONS FROM GROSS ASSESSMENTS.

(a) **Exempt Income and Impersonal Deductions.**

(1) EXEMPTIONS: INCOME NOT EXCEEDING £160.—This deduction, amounting now to over £10,000,000, represents almost entirely income which has been taxed at the source, and upon which repayment is claimed—*i.e.*, interest and dividends paid by public companies to persons who have incomes below £160. It does not include, as it did formerly,¹ certain cases of persons trading on their own account, etc., who are manifestly exempt, but is confined to those who must be dealt with, according to the system of taxation in force, by repayment. A very small sum, however, represents those who are exempted "by schedule."²

(2) CHARITIES, FRIENDLY SOCIETIES, ETC.—This deduction also represents repayments upon interest and dividends received by these bodies, upon which they are entitled to exemption by statute.

(3) FOREIGN DIVIDENDS BELONGING TO FOREIGN RESIDENTS.—*Vide* Chapter VIII.

(4) ALLOWANCES FOR WEAR AND TEAR.—These have already been fully explained.³

(5) OTHER ALLOWANCES, REDUCTIONS, AND DISCHARGES.—This considerable item represents, to the extent of about three-fourths, actual reductions on appeal, errors, and

¹ P. 204.

² P. 53.

³ P. 178.

double assessments given effect mainly to "by schedule," after the assessments have been closed up ready for the collection, and partly by repayments. Included here are repayments upon losses, against other taxed income, under the Act of 1890.¹ The balance is the net sum which is carried into schedule as irrecoverable for various reasons.

(b) **Personal Allowances.**

Abatements, life insurance premiums, and relief in respect of children are dealt with in Chapter VIII.

INCOME TAX PROFITS USED AS A TEST OF TRADE PROSPERITY.

This test is generally regarded as one of the most reliable, and it has been made by many writers.² There is no doubt a close correspondence between the assessments and trade,³ but the following cautions may be mentioned or recapitulated :—

(a) All legal or administrative "breaks" in the figures must be watched (p. 204).

(b) The "drain" to Sch. E should be considered (p. 215).

(c) The real movement of profits is masked by the average (p. 182).

(d) For many purposes it is necessary to consider the assessment in relation to changes in population before any fair inference can be drawn.⁴

(e) It may be necessary to consider improvements in administration.⁵

(f) In times of depression the non-appearance of average losses in the gross assessments leaves the latter unduly high.⁶

¹ P. 181.

² E.g., George Howell, "Capital and Labour," pp. 411—12.

³ *Vide* R. C. on Depression in Trade and Industry, 1886: Sir Algernon West, Q. 717.

⁴ Sir Algernon West, *loc. cit.*

⁵ Sir Algernon West (*loc. cit.*, Qs. 752, 804, etc.) would not admit 2 per cent. due to this cause, 1879—84.

⁶ *Loc. cit.*, Q. 886.

In the "Fiscal Blue Book," 1903,¹ the tables of comparative trade statistics include the gross income tax assessments under each schedule from 1853, with quinquennial averages. The figures are unadjusted, but warnings are given in footnotes for Sch. A transfers to Sch. D 1866-7, net Sch. A and Sch. B in Ireland to 1874-5, Sch. B generally, and even the small transfer from Sch. D to Sch. C in 1892-3. *No comment whatever is made, however, as to the change in the exemption limit 1876-7 and 1894-5 and its important effect upon the figures.*

Sir L. Chiozza Money quotes the "trades and professions," Sch. D, from 1854 as an evidence of growth of trade, and comments:—"The figures understate growth, because in recent years the extension of the exemption limit has cut out incomes which of old were included," but he *ignores the countervailing gain* from the Sch. A transfer in 1866-7 ("Fiscal Dictionary," p. 141).

The number of assessments and the average amount of assessments for successive years have been used "to test if possible the accuracy of the opinion that competition, although it may not have reduced the aggregate profits of English traders, has necessitated the division of those profits amongst a larger number of individuals." ²

Sch. D should always be taken as a whole (unless the businesses are separately given, *e.g.*, gasworks) because there is continual shifting between private trades and companies, and from fluctuations of neither separately can inferences properly be made as to prosperity, and comparisons with other fluctuations should not be made.³

Profits compared with Wages : Labour Unrest, Trade Unionism—Effects, etc.

The increase under Sch. D has been quoted in comparison with increases in wages—(a) as a percentage increase over a certain period ⁴; (b) by comparison of annual totals and changes.

¹ Cd. 1761, p. 454.

² R. C. on Depression in Trade and Industry, Q. 874.

³ *Vide* W. H. Price, *Quarterly Journal of Economics*, February, 1906; Sir L. Chiozza Money, "Fiscal Dictionary," p. 141.

⁴ W. T. Layton, *Economist*, 1911, p. 442; G. Howell, "Capital and Labour," p. 411.

The following quotation by Dr. Bowley from a working class newspaper shows the defects of such treatment and "the effect which an ignorant use of statistics can produce":—

"While trade unionism is stronger financially and numerically to-day than at any previous period in history, the workers are weaker relatively to the increasing resources of capital. This is plainly seen from the calculations of the Board of Trade as to the changes in the wages bill for each year since 1894, and the amount of income brought under the review of the Inland Revenue for income tax purposes during the same years.

"TABLE A.—*The Respective Increases.*

Year.	Yearly Wages Changes.	Total Profits, Rents, and Salaries.	Year.	Yearly Wages Changes.	Total Profits, Rents, and Salaries.
	£	£		£	£
1894	2,344,000*	673,711,000	1901	4,082,000*	833,355,000
1895	1,467,000*	657,097,000	1902	3,774,000*	866,993,000
1896	1,382,000†	677,769,000	1903	1,993,000*	879,638,000
1897	1,638,000†	704,741,000	1904	2,039,000*	902,758,000
1898	4,202,000†	734,461,000	1905	113,000*	912,000,000
1899	4,732,000†	762,667,000	1906	3,010,000†	925,000,000
1900	10,887,000†	791,735,000			

* Decrease.

† Increase.

"The net gain in wages during those thirteen years is £10,639,000, a sum which works out at 14s. 4d. per annum, or 3½d. per week, to the 14,000,000 wage workers concerned. Compare this with the net gain to the income tax paying class. In the thirteen years the incomes of the 1,100,000 income tax payers have increased by £351,289,000 per annum, or at the rate of £319 7s. per annum on the average. To put it in another way: the wage earning classes have increased their incomes during the thirteen years at the rate of ¼d. per week each year. The income tax payers, on the other hand, have increased their average incomes £24 9s. 6d. each year, as compared with 14s. 4d. to the worker, and 9s. 6d. per week each year, as compared with the worker's ¼d. per week. Further, the increase in the income of the income tax payers has been continuous, with the exception of 1895, while the workers have suffered decrease in seven out of thirteen years. . . ."

Dr. Bowley gives the following table and comments ("The Improvement of Official Statistics," S. J., 1907):—

"TABLE B.—*Rough Estimate of Wages and of Income above Exemption Limit Relative to Population.*

Year.	Wages: Index Number.	Income above Exemption Limit relative to Population: Index Number.	Income paying Tax under Schs. A, B and C (million £).
1894	100	100	182
1895	99	102	183
1896	100	104	184
1897	101	109	190
1898	107	111	190
1899	109	115	194
1900	114	118	197
1901	113	118	199
1902	111	118	201
1903	110	118	203
1904	109	118	204

"Note.—1894-1904, increase of population of the United Kingdom, 10 per cent.

". . . In dealing with the income statistics, the passage I have quoted errs in four ways. First, the gross totals of income bear a varying relation to the net totals, and the excess of the former has increased relatively to the total. Secondly, a great amount of earned income, much of it salaries which do not differ in any essential way from wages, is included. The amount under Schs. A, B, and C, as shown in Table B, has not increased faster than population. Thirdly, population has increased 10 per cent. during the period, and the last number should be discounted by about 10 per cent. before it is compared with the first. Fourthly, the wrong years are taken; thus, the total for 1906 is for the income reviewed in the year beginning April, 1905, and in a great number of cases this income is based on the average of previous years; perhaps 1904 is a reasonable date to take for it. For the paper I have just quoted, I made an estimate of total income above the limit of exemption, including earned and unearned, and gave it the form of index numbers relative to population;

these I have continued roughly to 1904 in Table B ; the comparison cannot yet be made for more recent dates. Now we find that income per head thus defined has increased 18 per cent. in the eleven years, wages 9 per cent. (I should emphasise that these figures are not final), against the 35 or 50 per cent. (according to the year taken) for income and the 1 or 1½ per cent. for wages shown in the passage under discussion. The gain of income on wages thus shown is a recent, and not improbably temporary, phenomenon ; the corresponding figures for the last forty years are :—

Index Numbers.

Year.	Wages.	Income.	Year.	Wages.	Income.
1864 . .	70	77	1894 .	100	100
1874 . .	94	104	1904 .	109	118 "
1884 . .	87	99			

To these comments it may be added that not only did the writer treat the number of taxpayers as constant (1,100,000), but he also made an error of £100,000,000 in the "increase" for thirteen years.

MISCELLANEOUS SOURCES OF INFORMATION FOR
SCH. D.

H. C. 492—1857-8 ; H. C. 2—1859. County return of Sch. D, 1856-7.

H. C. 546—1860. Detailed return by parishes for Great Britain, 1859-60.

H. C. 528—1863. Special Commissioners' appeals.

H. C. 511—1866. Sch. D, 1814-15, England and Wales, by counties.

H. C. 454—1870. Sch. D, 1842-69, Great Britain, by counties.

H. C. 103—1871. Paper on The Use of Employers' Returns of Wages.

H. C. 87—1874. Sch. D in cities, boroughs and counties (United Kingdom), showing (for 1869-70, 1870-1 and 1871-2) —(1) The number of persons paying under Sch. D ; (2) the number of returns sent in, and number not sent in ; (3) the

number of assessments made above the returns ; (4) the number of appeals : cases (a) sustained, (b) reduced, and (c) dismissed ; (5) the amount of reduction in (4) ; (6) poundages.

H. C. 368—1869. Five decadal returns of gross assessments.

H. C. 75—1878. Detailed return of unassessed duty, 1875-6, and also totals for five years.

H. C. 402—1878. Analysis of assessments, 1875 to 1878, trades and professions, complete list of surveys, and duty for each, and trades, etc., classed for every county.

H. C. 292—1882. County classification.

H. C. 206—1883. Ditto.

H. C. 25—1884. Ditto.

H. C. 235—1884. Ditto.

H. C. 32—1892. Ditto.

H. C. 217—1896. Ditto. (1889-94, 1869-70, 1874-5, 1879-80 and 1884-5). *Note*.—The footnote as to the rate of tax in 1874-5 is a misprint, and has misled several writers.

H. C. 307—1901. Continuation of above, 1895 to 1899-1900.

S. C. on Income Tax, 1852. Q. 5,056, Sch. D assessments. Number of cases where there were no returns or insufficient returns. *Appendix I*.—Exemptions, 1848-9, under each schedule, and how allowed. 1848-9, Sch. D. Cases of returns, charges without returns, or beyond returns, appeals and reliefs. *Appendix III*.—Number of Sch. D. assessments and exemptions, 1842-3. Return of special assessments and composition duty.

CHAPTER VII.

SCHEDULE E.—SALARIES OF OFFICIALS.

DEFINITION AND SCOPE.

“FOR and in respect of every public office or employment of profit, and upon every annuity, pension, or stipend payable by Her Majesty or out of the public revenue of the United Kingdom, except annuities charged to the duties under the said Schedule C.”¹ “The said duties shall be annually charged on the persons respectively having, using, or exercising the offices or employments of profit . . . or to whom the annuities, pensions or stipends . . . shall be payable, for all salaries, fees, wages, perquisites or profits whatsoever accruing by reason of such offices, etc. . . .” The “public offices” are defined to include “offices belonging to either House of Parliament, any court of justice . . . any criminal or justiciary or ecclesiastical court . . . or court-martial ; . . . under the civil Government,” also in the army, navy, militia and volunteers ; under any ecclesiastical body, whether aggregate or sole, “or under any public corporation, or under any company or society, whether corporate or not corporate . . . under any public institution or on any public foundation for whatever purpose . . . and every other public office or employment of profit of a public character.”²

Provision was made, in the case of large public departments, for separate departmental commissioners to administer the tax, and to deduct the duties from payments of salary, etc., but in all other cases the duties were assessed by the ordinary district commissioners and collected in the usual manner. The basis at first was obviously intended to be the payments of the year, but it was not perfectly clear, so

¹ 16 & 17 Vict. c. 34, s. 1.

² 5 & 6 Vict. c. 35, s. 146.

that subsequent enactment was necessary to ensure the due assessment of any additional salary, fees, or emoluments beyond the amount of the original assessment.¹ An increment in salary is immediately assessable. The only part of Sch. E strictly assessable on any other basis is "perquisites arising from fees or other emoluments," which may be estimated either on the profits of the preceding year, or on the average of three preceding years. There is a well-known concession, however, under which employees in a subordinate capacity and not holding a distinctive office are granted the benefit of the three years' average. Not *all* employees of public bodies are assessable under Sch. E, moreover, for engine drivers, porters, and labourers are not persons holding an office or employment of profit, and they are assessable under Sch. D.² Case law has decided, *inter alia*, as follows:—

(1) A college bursar, an officer of the college, but not a member of the corporate body, is assessable under Sch. E.

(2) The value of a bank agent's residence and of "board and lodging" are not emoluments assessable under Sch. E.

(3) An allowance to a deserving clergyman from the Curates' Augmentation Fund, renewed at the discretion of the society, and not a payment in respect of his services in a particular parish, is not assessable. An allowance from the Queen Victoria Clergy Sustentation Fund, not being a grant to the benefice and not accruing by reason of the office, but personal to the recipient because of his circumstances, was also not chargeable.³

It must be observed that the distinction between assessment under Sch. D and Sch. E rests not so much in the character of the duties performed as in the constitutional character of the employer. For example, a clerk performing exactly the same duties at exactly the same salary may one year be under Sch. D and the next under Sch. E merely because the employing firm has become registered as a limited company; a Wesleyan or a Presbyterian minister is

¹ 16 & 17 Vict. c. 34, s. 53.

² *Attorney-General v. Lancashire and Yorkshire Railway*, 2 H. & C. 792.

³ *Turner v. Cuxson*, 2 T. C. 422; *Herbert v. McQuade*, 4 T. C. 489.

assessable under Sch. E, whereas a Baptist or Congregationalist is assessable under Sch. D, the difference resting in the character of the body under which he serves. Hence the necessity, in any real consideration of employments, for the inclusion of all employees assessed under Sch. D.

It is clear that the Sch. E assessments represent for the most part the income of the year of assessment; the proportion assessed upon the average of the three preceding years would not be great enough to disturb the whole more than three months, and it may fairly be said that the income assessed for 1912-13 corresponds to the actual income of the calendar year 1912.¹

GROSS ASSESSMENTS : PRESENT STATISTICS.

CLASSIFICATION BY KINDS OF OFFICIALS.—The classification at the present time is under three heads: (1) Government officials; (2) corporation and public company officials; and (3) other persons assessed under Sch. E, but until quite recently it was under two only, the third class above being included under "Government officials." This is a point that will have to be watched in future in making comparisons.

"**Government officials**," as a heading, includes "assessments made in respect of payments out of voted moneys or charged upon the Consolidated Fund." "**Other officials**" refers in "England to the India Office, and the London offices of Colonial Governments, the Bank of England, Trinity House, the Ecclesiastical Commission, Queen Anne's Bounty Office," etc., and, in Ireland, to "the Representative Body of the Church of Ireland, the Bank of Ireland, Registry of Petty Sessions Clerks, Irish Lights Commission, and Dublin Ports and Docks Board."²

The **corporation and public company officials** comprise four-fifths of the persons and amounts assessed. These range over salaries in every branch of industry, from directors' fees in banks and insurance companies to the odd guineas paid to directors of Starr Bowkett building societies; from a

¹ Out of £130,000,000 not more than £10,000,000 would appear to be based upon an average of preceding years.

² 56th Report, p. 118.

magistrate's clerk to a Wesleyan minister, or the managing director of a "one-man" company who takes most of his *profit* in the form of remuneration. It is obvious that to cite the *whole* of Sch. E as evidence of the growth of "bureaucracy" is a little wide of the mark.

"The most flourishing class in the country would seem to be the salaried officers of the Government, corporations, and public companies. They nearly doubled their incomes between 1891 and 1900. Imagine a bureaucracy costing us seventy-five millions sterling a year."—W. R. LAWSON, *Fortnightly Review*, May, 1903.

"Company directors are not returned as employees in the income tax returns."—ZORN, "Incidence of the Income Tax."

THE DRAIN FROM SCH. D.—This is one of the most important considerations in connection with Sch. E. "The conversion of private concerns into public companies is a factor constantly tending to increase the assessments under this schedule and to diminish the assessments on employees under Sch. D."¹ Reference should be made under this heading to the remarks on Sch. D,² but it may be mentioned here that the conversion of private concerns into public companies affects Sch. E in three ways :—

(1) It transfers whole groups of assessments from one schedule to another.

(2) Many of the assessments, instead of being on a three years' average, are at once made on the actual salary of the year, and are generally increased thereby.

(3) In the case of small trading concerns, in which the proprietors have taken out the profits only to a small extent as salary, and to a larger extent as profits, the "earned income rate" is obtainable on the whole in one assessment. On conversion into private companies, if profits are taken as dividends, the earned income rate is not allowable, so that the amount taken definitely as remuneration is often purposely increased. Much that was chargeable as ordinary profits under Sch. D may figure under Sch. E after the conversion as directors' fees.

¹ 56th Report, p. 117.

² *Vide* p. 214.

"Sch. E registers company promotion activity more faithfully than general prosperity" (W. H. Price, "The British Income Tax," *Quarterly Journal of Economics*, February, 1906, in examining the income tax as an index of prosperity). He is referring, however, only to the *promotion* of new concerns, for his generally accurate and well-informed article says: "No schedule shows as large and as constant annual increase as does the one which embraces salaries of Government and public company officials. Gross income under this head shows far greater increases than taxable income, largely because public companies have been rapidly increasing, and many of their employees assessable under this schedule receive salaries below the limit of exemption." He fails to note the constant transfer of Sch. D assessments to Sch. E, and he errs in supposing that the salaries "below the limit of exemption" affect the gross figures. The difference between gross and net increases is of course due to the fact that the abatements bear a large proportion to the gross salaries.

CLASSIFICATION BY COUNTRIES.—The statistics are given for the metropolis, rest of England, Scotland, and Ireland separately. But this indicates only where the assessments are *made*, and not necessarily where the officials carry on their duties, for in many cases all assessments are made where the head office is situated. The warnings given under Sch. C and Sch. D must be repeated here.¹

The 12th Report refers to the "danger of inferences which the mere figures appear to warrant" in connection with a House of Commons return on the comparative burden of taxation in England and Ireland. "Sch. E again is as fallacious a guide as the others . . . nearly the whole of the civil, naval and military servants of the British Empire being assessed in London. Even the public servants employed in Ireland are for the most part charged in England."

But although forty years have passed, the warning is still necessary :—

"No. of officials in Ireland, 4,397 ; in Scotland, 944" (1909-10 figures).

"This assertion has become a commonplace argument of the Home Rulers for British platforms. It has found its way into all their text-books, and the general soundness of their financial

¹ *Vide* pp. 167 and 237.

propositions may be gauged by it. It had its origin in a speech of Mr. Kettle, ex-M.P., in Parliament in 1908, with which he says he amazed the House of Commons. It is based upon a patent misapprehension of the returns of income tax assessments under Sch. E.

"These tables do not show, as Mr. Redmond's argument would lead his hearers to suppose they did, that there are only 944 civil servants on the Scotch establishment. What they do show is the number of certain assessments made in London, in the rest of England, in Scotland, and in Ireland. If Mr. Redmond's deduction was correct the tables would prove that while it required 944 officials to manage Scotland and 4,397 to manage Ireland and 82,896 to manage London, all the rest of England was managed by nobody. The income tax assessments are made at the source of payment and not at the place where the employee is stationed, and the explanation of the tables is that London is the great financial centre for Government offices in Great Britain and the usual pay office for civil servants not only in England but in Scotland, while the pay office for nearly all Irish civil servants is the Paymaster-General's office in Dublin. The income tax is deducted at headquarters."—A. W. SAMUELS, "Home Rule: Its Financial Aspects," *Financial Review of Reviews*, March, 1912.

GROSS ASSESSMENTS.

CLASSIFICATION BY AMOUNTS.—The whole of the Sch. E assessments are given classified in stages in the *General Schs. D and E classification*,¹ but, unlike Sch. D, there is no attempt to subdivide into classes of persons also. They are obviously all assessments upon "employees" in a very broad sense, and when included with employees (Sch. D) give a complete view of one class.

A peculiarity of Sch. E materially affecting the numbers in the tables is that assessments are not made upon full personal liability under the schedule, but are impersonal to the extent that it is really the *office held* that is assessed in the name of the holder for the time being. So a country solicitor, who is clerk to magistrates, clerk to rural district councils, to income tax commissioners, to guardians, and to various institutional bodies and charities, may have

¹ *Vide* p. 238.

twelve or fifteen separate assessments under Sch. E. Similarly a medical man often has six or more small appointments all separately assessed, as medical officer for various bodies. In the same way one man is a director of five or six cotton companies in Lancashire. Altogether the number of multiple assessments is very considerable, and the large proportion (two-fifths) of the whole number of assessments which fall in the class "under £160 but not exempt" is clearly explained, and the low average of that class, £58, can be well understood.

This consideration becomes important when the tables are used for estimating the number of taxpayers and the distribution of income.

It should also be remembered that this classification is one of gross assessments, without regard to any *expenses* which have to be deducted.¹

DEDUCTIONS FROM GROSS ASSESSMENTS.

(1) **Expenses.**—Under the 1842 Act there was no allowance for the necessary expenses of performing the duties of an office. This was remedied in 1853, when deductions were allowed²—(1) for the expenses of travelling, keeping a horse, and any other expenses "wholly, exclusively, and necessarily" incurred in the performance of the duties; (2) for any expenses necessarily incurred in the performance of duty by a clergyman or minister of any religious denomination.

Deductions under (2) have been held not to include voluntary contributions to the stipend of an assistant minister, the expense not being necessarily incurred in the *personal* performance of duty.³ In Scotland allowable deductions for a minister included expenses of visiting his congregation, attending church meetings enjoined on him as part of his duty, stationery and communion expenses, but not the value of part of his house used as a study, nor the expense of books.⁴

¹ *Vide* p. 241.

² 16 & 17 Vict. c. 34, ss. 51 and 52.

³ 2 T. C. 65.

⁴ *Charlton v. Commrs. of Inland Revenue*, (1890) 27 Sc. L. R. 647; but in 1909-10 the allowance for a "study" was granted.

But the deductions under (1) are of more importance statistically. The expenses of directors travelling from their residences to the office of their company are not allowable,¹ and the expense of travelling between two places in order to carry out two separate offices² is inadmissible. The expenses must be incurred *in* the performance of duty. The claim of a national schoolmaster (assessed to include the salary of his wife who was a schoolmistress) to deduct the wages and maintenance of a domestic servant, on the ground that her employment was necessary in order that the duties of the household might be carried on, was disallowed.³

Generally speaking, compulsory contributions to superannuation allowances are deductible as an expense. The only recent change is the allowance of one-eighth part of the *rent paid* by a clergyman, in respect of a room used as a study.

The amount of these expenses is not now shown separately. In 1899 it was £850,636,⁴ but is now much more, and is included in "Other Allowances, Reductions and Discharges."

From 1853 to 1873 no account was taken of this allowance, which was deducted before the gross assessments were classified, so that to restore the sequence of figures from 1842 to the present time it is necessary to increase the gross assessments (*vide* Table E).

(2) **Other Allowances and Reductions.**—These are reductions on appeal, fees credited but finally waived, double assessments, etc., at all stages in the administration, and must be deducted from the gross to give true income for statistical purposes.

(3) **Exemptions: Income not exceeding £160.**—It will be observed that this sum bears but a small proportion to the total. All income known to be exempt at the time when the assessment books are made up is excluded, and this small amount represents the incomes for which exemption claims are completed by schedule or repayment.⁵

¹ *Revell v. Directors of Elworthy Bros.*, 3 T. C. 12.

² *Cook v. Knott*, 2 T. C. 246.

³ *Bowers v. Harding*, 3 T. C. 22.

⁴ Repayments not shown, and not included.

⁵ *Vide* p. 53.

It is obvious that to arrive at true income of liable persons deductions (1), (2), and (3) should be made from the gross assessments.

Personal Deductions.—These are abatements, life insurance premiums, and allowances for children, and the remarks under Sch. D are equally applicable here. These deductions should *not* be made when the true income of taxable persons is in question.

It should be noted that life insurance allowances were deducted from gross assessments, 1853 to 1873, and did not appear in the gross statistics at all.

GROSS ASSESSMENTS—SEQUENCE.

Apart from the continuous effect of the drain from Sch. D, the following are the chief breaks in statistical continuity :—

- (1) False gross assessment.
- (2) 1842 to 1853.—Omission of Ireland.
- (3) 1853.—Exemption limit reduced from £150 to £100.
- (4) 1876.—Exemption limit raised from £100 to £150.
- (5) 1894.—Exemption limit raised from £150 to £160.
- (6) 1853 to 1873.—Reduction of gross assessment by amount of life insurance allowance and expenses.

These have already been explained under Sch. D.¹ The effects of (2) have been computed in Appendix III., and of (3), (4), and (5) in Appendix I., while (6) is allowed for in Table E.

Break 5.—W. H. Price, in accounting for the Sch. E decrease in 1894–5, speaks first of “dull business,” and company failures, and adduces “finally” the proper reason, but does not give it sufficient weight (“The British Income Tax,” *Quarterly Journal of Economics*, February, 1906).

¹ P. 204.

TABLE E.—Sch. E Assessments, United Kingdom
(in million £).

Year.	Official Gross Assessments generally used hitherto.	True Comparable Series with Exemption Limit £150.	True Comparable Series with Exemption Limit £160.
1842 . . .	9·7	10·1	9·7
1843 . . .	11·3	11·9	11·4
1844 . . .	11·1	11·6	11·1
1845 . . .	11·5	12·0	11·5
1846 . . .	11·7	12·2	11·7
1847 . . .	11·9	12·5	12·0
1848 . . .	12·3	12·8	12·2
1849 . . .	11·8	12·3	11·7
1850 . . .	11·7	12·1	11·5
1851 . . .	11·5	12·0	11·5
1852 . . .	11·7	12·2	11·6
1853 . . .	14·4	12·3	11·8
1854 . . .	15·3	13·1	12·5
1855 . . .	17·3	14·7	14·1
1856 . . .	17·7	15·0	14·4
1857 . . .	18·3	15·6	15·0
1858 . . .	19·0	16·2	15·5
1859 . . .	19·1	16·3	15·6
1860 . . .	19·7	16·7	16·0
1861 . . .	20·3	17·3	16·6
1862 . . .	21·0	17·8	17·1
1863 . . .	21·0	18·0	17·2
1864 . . .	22·1	18·9	18·1
1865 . . .	23·7	20·3	19·4
1866 . . .	23·7	20·3	19·5
1867 . . .	24·0	20·6	19·8
1868 . . .	24·1	20·8	19·9
1869 . . .	26·3	22·7	21·7
1870 . . .	26·9	23·2	22·2
1871 . . .	27·8	23·9	22·9
1872 . . .	29·5	25·5	24·4
1873 . . .	30·7	26·6	25·4
1874 . . .	32·5	27·6	26·5
1875 . . .	34·0	28·7	27·5
1876 . . .	30·0	30·0	28·7
1877 . . .	31·5	31·5	30·1
1878 . . .	32·0	32·0	30·6
1879 . . .	32·8	32·8	31·4
1880 . . .	33·2	33·2	31·8
1881 . . .	34·7	34·7	33·2
1882 . . .	36·1	36·1	34·6
1883 . . .	37·7	37·7	36·1

SCHEDULE E. SALARIES OF OFFICIALS. 273

TABLE E—continued.

Year.	Official Gross Assessments generally used hitherto.	True Comparable Series with Exemption Limit £150.	True Comparable Series with Exemption Limit £160.
1884 . .	38·3	38·3	36·7
1885 . .	39·4	39·4	37·4
1886 . .	40·3	40·3	38·6
1887 . .	41·3	41·3	39·6
1888 . .	42·8	42·8	41·0
1889 . .	45·0	45·0	43·8
1890 . .	47·7	47·7	45·7
1891 . .	49·5	49·5	47·4
1892 . .	51·6	51·6	49·4
1893 . .	52·6	52·6	50·3
1894 . .	51·0	53·3	51·0
1895 . .	53·3	55·7	53·3
1896 . .	56·4	59·0	56·4
1897 . .	59·8	62·5	59·8
1898 . .	65·3	68·2	65·3
1899 . .	70·1	73·2	70·1
1900 . .	75·4	78·8	75·4
1901 . .	79·2	82·7	79·2
1902 . .	82·4	86·1	82·4
1903 . .	86·1	89·9	86·1
1904 . .	89·4	93·4	89·4
1905 . .	93·2	97·3	93·2
1906 . .	97·1	101·5	97·1
1907 . .	104·0	108·6	104·0
1908 . .	109·6	114·5	109·6
1909 . .	113·8	118·9	113·8
1910 . .	119·7	125·0	119·7
1911 . .	127·2	133·0	127·2
1912 . .	135·6	141·7	135·6
1913 . .	145·6	152·1	145·6

CHAPTER VIII.

THE INCOME TAX AS A WHOLE.

SECTION I.

GENERAL TABLES FOR THE WHOLE INCOME TAX.

THE first table appearing in the present reports is that giving details of **Budget estimates, amounts paid into the Exchequer, net receipt, net produce, and produce for each 1*d.* in the £.** These are shown for eleven years in comparative form, and the table gives details for a year in advance of the remaining tables. In this form it dates from 1900, but the last three headings are given separately in earlier reports.

Definitions.¹—"Budget estimate" is the amount at which the Chancellor of the Exchequer places the Exchequer receipt of tax for the financial year.

"Exchequer receipt" is the amount of tax which is paid over to the Exchequer within the year, and stands as the realisation of the Budget estimate, with deficit or surplus.

"Net receipt" is the amount of tax actually collected by the department within the year (no matter for what year the tax may have been assessed), less the amount of tax refunded etc. within the year.

"Net produce" is the estimated yield of the tax *imposed for any particular year*, irrespective of the date of actual collection.

"Produce per 1*d.*" represents the net produce divided by the rate of tax; it shows roughly the effect of adding 1*d.* to the rate of tax.

Use of "Net Produce" Statistics.

The first three headings are of ephemeral importance and interest only, and have little statistical value. The figures

¹ *Vide* 45th Report, p. 169.

depend so much on the accidental circumstances of the collection, or the financial requirements of the Budget for the year, that each year exhibits its own peculiarities, having no relation to the amount of the *assessments*. The net produce, on the other hand, is the net duty on the income assessed for the year, and has some value, but perhaps its chief use is to enable the net produce per penny to be computed. The produce per penny is a figure which may be held to have some degree of real comparability year by year, and it is frequently adduced as evidence for or against the general progress of the community, being pressed into controversies about tariffs, bimetallism, and other subjects into which the question of "progress" enters. It is obvious, however, that the net produce reduced to the amount per penny by allowing for changes in rate is only comparable *cæteris paribus*, for both wealth and gross assessments may increase and yet the yield per penny may decline by reason of additional allowances from taxable income—*e.g.*, insurance, abatements, or any other change in the conditions of levy. This is the chief pitfall in such comparisons.

The increase between 1870-1 and 1906-7 is quoted in Porter's "Progress of the Nation" (p. 168), with the comment "as a matter of fact the increase is even greater than these figures testify owing to the changes in the scale of abatement and exemption."

The following uses are typical :—

General Progress.

(1) In Parliamentary Return 217 of 1896 there is an error in the footnote which gives the rate in 1874-5 as 3*d.* instead of 2*d.* Dividing the yield under each schedule by 3 instead of 2, Mr. Williams accordingly obtained very low figures throughout—£1,172,000 instead of £1,916,000—with which to compare £1,974,000 for 1894-5, twenty years later, and he concludes that the increase was 71 per cent. (instead of 3 per cent. actually), despite the restricted range of income covered, which he duly observes.

In commenting upon the increases under Sch. D, however, he computes an increase from 1869-70 to 1894-5 of 88 per cent.,

without referring to the effects of legislative changes ("Twenty-five Years of the Income Tax," *Investors' Review*, October, 1896).

(2) W. R. Lawson, following the passage quoted on p. 310, says that the rate of increase in gross and net assessments upsets the "favourite plea that if the national expenditure is growing by leaps and bounds, the national wealth is keeping pace with it," of which only one proof is offered, "and it is an ambiguous one. They point to the certainly curious and paradoxical fact that the more the income tax is raised the greater is the yield of each individual penny of it. That sounds as if the taxpayers had very progressive and elastic incomes, but it admits of an alternative explanation—unfortunately a most prosaic one, and only too likely to be correct. The increased yield per penny may be largely due to more vigilant assessment and collection. It has always been subject to erratic fluctuations difficult to account for, and not to be attributed solely to any single cause" ("Two Record Budgets, 1860 and 1903," *Fortnightly Review*, May, 1903). He then quotes the years from 1891 to 1900-1, ignoring the depression in 1893-4, and the Finance Acts of 1894 and 1898, and concludes:—"If there be a key to these variations it is the tax gatherer's screw rather than the growth of national wealth."

(3) On comparisons between wealth and poverty, see also Benjamin Kidd, "Imperial Policy and Free Trade," *Nineteenth Century*, July, 1903.

Free Trade and Protection.

(4) "Free trade statisticians point to the returns of our income tax collection as a proof of our continued prosperity. . . . Yet when I examine these returns I fail to agree. . . . The yield of our income tax has remained the same for the past ten years. It remains 2·1 millions for every penny levied. Yet the population has increased by no less than three millions in the interim. Therefore the returns have decreased" (G. Byng, "Protection," 1901). The effect of the additional allowances in 1894 and 1898 has been ignored.

(5) "In the last five years the yield of the income tax per penny in the pound has increased from two millions to two and a half millions. Does that look as if our capital were disappearing?" —HAROLD COX, "The Effect of the Corn Laws: A Reply," *Nineteenth Century*, February, 1903.

Similarly, Harris, "Depression of Trade and National Progress," *Journal of Institute of Bankers*, 1885.

Giffen, in discussing the rate of material progress (*S. J.*,

1887), quotes the aggregates in ten-year periods from 1855 to 1885, "making all allowance for the limit of tax and improved collection," and discusses generally the relation of *prices* to these results. He used quinquennial averages, 1864-84, in various forms before the R. C. on Trade and Depression, 1886.

E. Crammond compares gross assessments, 1900-10, and makes *per capita* comparisons for England, Scotland, and Ireland respectively—14·7, 12, and 21 ("Ireland's Economic Development," *Nineteenth Century*, May, 1912).

W. M. J. Williams quotes Irish assessments, 1894-5 and 1908-9, as evidence of Irish progress (*Contemporary Review*, February, 1912).

Leroy Beaulieu compares 1897-8 and 1911-12 (*L'Economiste Française*, 11th July, 1914).

"Anti Bimetallism : Yield per 1d., 1870 to 1892" (Journal of Institute of Bankers, 1895, p. 377).

A further use to which the figures have sometimes been put is to prove that high taxation increases evasion:—"It must be remembered that, in reducing the rate of income tax, you always increase the yield per 1d."—F. W. HIRST, "An Ideal Budget," *Independent Review*, December, 1905.

Vide also Schuster, Journal of Institute of Bankers, 1904, p. 217.

It will be clear that before comparisons are made regard must be paid to the effect of legislative changes, but for most purposes the relative population should also be considered, as total wealth is of small significance by itself. For example, see H. C. 163—1896 (000 omitted).

Years.	Yield per 1d.	Loss by Reliefs.	Yield at be- ginning.	Yield at end.	Growth.	Per cent.
1875-6 to 1885-6.	£ 1,978	£ 60	£ 1,918	£ 1,980	£ 62	3·23
1885-6 to 1895-6.	1,980	175	1,805	2,012 (approx.)	207	11·47

(Growth over the whole period, 15·43 ; growth in population, 19·17.)

If the 1d. in the £ produce is divided by population without regard to changes in abatements, etc., inferences may be grotesque. (*Vide* G. Drage, "Imperial Organisation of Trade" (p. 28), who quotes from Schultz Gavernitz, p. 251.)

Sir R. H. Inglis Palgrave gave the produce per *id.*, 1843, 1851, and each decade to 1901, making an index number, and also the produce per head of the population :—1843, 6.93*d.* ; 1851, 6.90*d.* ; 1861, 9.30*d.* ; 1871, 12.10*d.* ; 1881, 13.17*d.* ; 1891, 14.23*d.* ; 1901, 14.65*d.* There is no reference to the abatements and other breaks (" Enquiry into the Economic Condition of the Country," Journal of Institute of Bankers, 1904).

F. Platt Higgins quoted Palgrave's results above, and derived satisfaction, as a tariff reformer, from the results (Journal of Manchester Statistical Society, 1905-6, p. 54).

TABLES SHOWING VIRTUAL RATES OF TAX, AFTER ALLOWING
FOR THE EFFECT OF ABATEMENTS.

Official Table 94 of 1913-14 (Graduation).

The use of abatements is merely a device to obtain a kind of graduation. Because of a certain roughness in its results it has been greatly abused by many who do not understand the practical difficulties, in a "*stoppage at the source*" system, of applying actual graduated rates to each stage. This is not the place to discuss or defend the system, but it may certainly be admitted as one of its attendant disadvantages that few people know with reasonable exactness what is the real *rate* of income tax they are paying. One hears eloquent grumbling on the part of men with incomes of £300 about an "intolerable tax of 1*s.* 2*d.* in the £," or whatever the normal rate of the year may happen to be, quite regardless of the fact that the real rate on that income is only 6½*d.*

This table is therefore a useful reminder that the tax is graduated, and it acts as a ready reckoner to the true rates. Moreover, since people *must* make comparisons, if not odious or invidious, generally inaccurate or inadequate, it gives an opportunity for a correct comparison of rates with other countries, where a direct system of taxation by a graduated scale is in force.

Misleading comparisons may be illustrated by the following :—

(1) " Our income tax, allowing for abatements, amounts to from 9*d.* to 1*s.* in the £. The German income tax amounts only to

from $\frac{3}{4}d.$ to $9\frac{1}{2}d.$ in the £."—J. ELLIS BARKER, *Fortnightly Review*, May, 1909.

This statement is meaningless unless the levels of income are indicated, since the Prussian tax reaches $4\frac{1}{2}d.$ in the £ at the place where the British tax begins, and our rates, "allowing for abatements," were (at the time of the quotation) $\cdot 3d.$ where the Prussian rate was $5d.$, and $5\frac{1}{2}d.$ where theirs was $7d.$ ("earned" incomes prior to the 1909 "additions" in Prussia). After 1909 the rates were widely divergent (in favour of the British rate) up to £600 income, then closely similar up to £2,000, then divergent again (in favour of the Prussian rate). No comparison for "unearned" income can easily be made.

(2) Another writer, anxious to make his proposal for rates of $7\frac{1}{2}$ per cent. on incomes of £10,000 and 10 per cent. on £50,000 appear quite harmless, said:—"This is moderation too compared with the *rates of income tax* which are now being proposed by the German Chancellor. The latest advices from Berlin give the following rates as those which are to be imposed for the next three years: Incomes from £60 to £150 to be additionally taxed 5 per cent., those from £150 to £525 10 per cent., those from £525 to £1,200 15 per cent., and so on to those of £1,750 with an augmented tax of 25 per cent., which is the maximum."—P. SNOWDEN, M.P., *Socialist Review*, March, 1909.

This language is quite misleading, since these percentages are not *rates of tax* at all, but rates of addition to the sums previously payable—a vastly different matter. If 4 per cent. were payable previously and the 25 per cent. addition has to be made, the effect is to raise the rate to 5 per cent.!

(3) "Germany is in a far more favourable position than Great Britain, not only as regards indebtedness, but also as regards taxation, as the following figures show:—

Income Tax in Prussia (allowing for Abatements).			Income Tax in Great Britain (allowing for Abatements).	
On £150	.	$4\frac{1}{4}d.$ in the £	}	$9d.$ to $1s. 8d.$ in the £."
„ £300	.	$5\frac{3}{4}d.$ „		
„ £500	.	$7\frac{1}{4}d.$ „		
„ £1,000	.	$7\frac{1}{4}d.$ „		
„ £2,000	.	$7\frac{3}{4}d.$ „		
„ £3,000	.	$8\frac{1}{4}d.$ „		

—J. ELLIS BARKER, "Modern Germany," p. 695.

Mr. Barker might have furnished the real figures for Great Britain—£150, *nil*; £300, $4\cdot 2d.$; £500, $6\cdot 3d.$; £1,000, $9d.$; £2,000, $9d.$; £3,000, $1s.$ (earned incomes, 1909-10).

The subject of *graduation* is, in itself, outside the scope of this work, but it is bound up with the question of deduction of tax at the source. The methods of *deduction*, etc., are often referred to, and there are many misconceptions.

(1) "Every payer should make an annual return . . . direct. This would save inconvenience, irritation and loss of revenue in cases such as the following :—A. borrows £500 on a property ; B. lends the same. B. must (by law) allow income tax 1s. in the £ at present. A. returns his income under £500 per annum, and therefore pockets the difference between the 1s. in the £ allowed him and the lesser rate he is chargeable with. Therefore both lender and revenue suffer."—REV. J. CARDWELL GARDNER, *Financial Review of Reviews*, February, 1907.

But A. is not charged a "lesser" rate ; he gets an abatement, which is quite a different thing. If his gross income is £450, and his net income (after payment of interest) £425, he is charged on £450 minus £150 abatement, or £300 net at (say) 1s. in the £. He deducts tax on £25 at 1s. from B., and therefore finally bears tax on £275 at 1s.

(2) "Public companies ought to pay their dividends free of income tax to their shareholders, as by so doing they would save them a fraction over $\frac{1}{2}d.$ in the £." For example, a company pays a dividend of £5 to Mr. John Smith, and it deducts from the interest warrant the amount of 5s. and pays Mr. Smith £4 15s. Now the amount Mr. Smith receives is £4 15s. and no more ; and the income tax on that is 4s. 9d., and not 5s. Now if the company had paid the income tax upon Mr. Smith's dividend instead of deducting it, they would have paid 5s. and no more to Somerset House. Consequently, Mr. Smith would have in this event paid 1s. income tax for each £1 received, but owing to his having his income tax deducted by the company he is made to pay 4s. 9d. on the £4 15s. he received, plus 3d., which makes his income tax on this something over 1s. $0\frac{1}{2}d.$ in the £. This is not generally perceived, consequently shareholders continually pay more than 1s. in the £."—SIR R. EDGCUMBE in *Financial Review of Reviews*, February, 1907.

This is quite fallacious. The tax paid by the company to the Revenue is the *same* in any case, whatever method it has in dealing with its dividends. Assume for simplicity that its total profits are £1,000 ; it is assessed and pays £50 tax thereon. Then it has only £950 to distribute, and it can either pay out £950 as dividend "free of tax," or pay the full nominal £1,000 dividend, deducting tax, and disbursing £950 as the net cash. But it is

physically impossible to pay £50 to the Revenue and *also* £1,000 in full to the shareholder.

Net Receipt of Income Tax in each Part of the Kingdom (Table 93).

This table is of small use for general purposes, any inferences from it being severely limited. The net produce figures are in every respect superior. The effect of the financial deadlock in 1909 upon these two tables should be observed, and the difference between them will be clearly understood.

Gross Income brought under the Review of the Department (Table 96).

This table is perhaps the most important of all the official statistics. At any rate, these figures are more often quoted and used than any others, and their limitations should be clearly grasped. They represent, of course, an aggregation of the "gross" figures for each schedule already discussed, and many of the "faults" of the separate tables are of course present here. But one class of difficulties in the separate schedules vanishes in this aggregate, viz., the complications arising from transfers from one schedule to another, whether by special legislation (as when railways, mines, etc., were transferred from Sch. A to Sch. D ¹) or by the nature of the case (as with the continuous "drain" from Sch. D to Sch. E ²).

The most important fault in this aggregate of gross assessments is that the components are unlike in scope. Sch. A and Sch. B both include *all* the income within their respective classes, whether liable or exempt, Sch. E is practically confined to *liable* income, and Schs. C and D include only that exempt income which represents dividends and interest paid (under *deduction* of tax) to non-liable persons who claim repayment; that is to say, the inclusion of exempt income is only allowed where it is quite unavoidable. It is clear, therefore, that to get a homogeneous figure the whole of the

¹ P. 212.

² P. 214.

exempt income—"that fraction of the income of exempt persons which for administrative reasons comes within the purview of the department"—must be deducted.

"When the Income Tax Commissioners record that such and such a gross amount has been 'reviewed' by them, they simply mean that they have collected a vast number of documents, each purporting to represent a certain sum of money, and have reviewed them, or (in plain English) gone through them with the object of picking out those, and those only, which stand for net private incomes amounting to more than £160 a year."—W. H. MALLOCK, "Social Reform," p. 117.

It will be seen that this explanation hardly meets the case—in fact it really misrepresents it. Sch. A and B exempt income is wholly included, but Sch. C and D exempt income is almost entirely excluded; it is only where it is necessary to claim exemption by repayment that it *must* be included in gross assessments. There are thousands of returns under Sch. E where exemption is claimed and none of these get included in the gross statistics, the exempt income included under this schedule temporarily being very small indeed. A more accurate description is perhaps the following:—

"The officials throw their net over a wide area, and at the first cast of it they get into its meshes a considerable amount of income which they have to release later."—SIR THOMAS WHITTAKER, "Ownership and Taxation of Land," p. 47.

The position is very well set out by Mr. W. H. Price, who says that while in 1903-4 Sch. D accounts for 44 per cent. of the gross income brought under review, it provided 60 per cent. of taxable income and revenue, and the wide difference is "due to the fact that persons and firms whose incomes are below £160 are not required to declare their incomes; while in the case of the other schedules, and likewise in that part of Sch. D which applies to companies, such income is brought under review but is omitted from taxable incomes" ("The British Income Tax," *Quarterly Journal of Economics*, February, 1906).

The official description of "gross income" was as follows:—

"It can include only so much of the gross national income as is liable to taxation under the Income Tax Acts, or as, but for some title to exemption, would be so liable, and in addition a comparatively small fraction of that part of the national income which is not liable to taxation."

"The figures of gross income as given in previous reports have not, however, covered quite the whole of the ground described above, for they have been confined to the gross income brought into assessment, and have been commonly described under the term 'gross assessments,' and they have thus left annually out of account some two to five millions of income on which tax is levied without regular assessment."¹

Again, the income belonging to exempt charities, hospitals, and friendly societies is *completely* included so far as Sch. A is concerned, but only partly included under Schs. C and D. This, too, must be deducted to give consistent results. It is obvious that these two items, if fairly constant, would mask the true percentage growth of the significant gross income.

A third item, which does not relate to true liable income at all, is "foreign dividends belonging to foreign residents." Such payments come administratively through the machine, but do not belong to it in any way.

The deduction of these three classes gives an aggregate representing the **gross assessments upon the income of liable persons**, consistent and comparable.

Can the gross assessment exhibit fictitious changes?—(a) It is obvious that if a number of large "fancy" assessments were made, and then allowed off "by schedule" and never collected, the gross figures might be swollen to any extent. The details of "other allowances, *reductions and discharges*" are therefore of importance and should be observed.

(b) An administrative or legal change may add to the gross assessments at the same time that it adds equally to the deductions. This tendency is exhibited whenever capital assets that have been dealt with by way of renewals are brought under the method of "wear and tear" allowances.²

Any one scanning the tables for the past decade will observe that the gross assessments have grown more rapidly than the "income on which tax was received"; the former have advanced £190,000,000 in the ten years 1902 to 1911, or

¹ 45th Report, p. 168. *Vide* also p. 213 for these additions of "unassessed duty."

² For explanation, *vide* p. 178.

21·6 per cent., and the latter £112,000,000, or 18·4 per cent.

The differences are made up as follows :—

		Per cent. Growth.
Gross income under review	£190·5	21·6
Exemptions	£11	22·8
Charities, etc.	5	60·0
Foreign dividends to foreigners	1·1	212·0
	— — 17·1	29·7
Gross income of liable persons	173·4	21·1
Allowances from gross income :—		
Repairs	7·5	21·5
Empty property	1·7	28·8
Wear and tear of machinery.	13·7	108·0
Other allowances, reductions and discharges	3·4	7·0
	— — 26·5	25·8
Taxable income	146·9	20·4
Allowances for taxing purposes :—		
Abatements	24·9	24·0
Life insurance	4·5	61·6
Children	5·5	New.
	— — 34·9	31·4
Income on which tax was received	112·0	18·4

Two new allowances were introduced during the decade, the additional repairs under Sch. A and the children allowance. The “wear and tear” method of allowance has been greatly extended. These three items alone account for a considerable part of the difference.

The really significant figure for comparative purposes is the **taxable income**,¹ which is given clearly in new tables in the 56th Report for the first time. Table G4 includes similar figures estimated for previous years.

¹ Discussed further on p. 295.

But with all their limitations these total gross assessments will doubtless continue to be used for comparative purposes in every possible connection. It is necessary, therefore, to consider them in some detail, sufficiently illustrating the kind of errors which are most prevalent.

TOTAL GROSS ASSESSMENTS : SEQUENCE OF STATISTICS.
TIME COMPARISONS:

The following are the *chief* "breaks" in the series ¹ :—

(1) The Omission of Ireland, 1842 to 1852.

The figures for *Great Britain* during this period have frequently been brought into deliberate comparison with figures for the *United Kingdom* for subsequent years.

Hyndman, in "England for All" (quoted by W. H. Mallock, "Property and Progress," p. 150), compares the "total gross annual value of property and profits, £275,000,000, in 1848, with £578,000,000 in 1878, yet the total population in 1848 was 28,000,000 as against 34,000,000 in 1878. Here then in the United Kingdom an increase of 110 per cent. in income since 1848 is accompanied by an increase in the population of only 20 per cent."

(2) The "False" Gross Assessments under Schs. D and E, 1842 to 1867.

These have been explained under Sch. D.² All writers who have had recourse to gross assessments have used the official *gross* figures instead of the official *net* figures, and the latter were subsequently regarded as the gross. It would therefore be idle to specify particular instances.

(3) Change in Exemption Limit, 1853.

The reduction in the limit from £150 to £100 in 1853-4 increased the gross assessments under Schs. D and E,³ and

¹ Only changes in scope have here been noted. Legislative enactments designed to render the administration more effective in preventing evasion, etc., over the existing field have been ignored.

² P. 204.

³ P. 211.

therefore affected the total gross assessments. It has been frequently ignored:—

G. J. Shaw Lefevre quoted the 1867–1876 decade correctly for the purpose of illustrating the commercial progress of the country, but in comparing it with the decade 1847–56 the percentage of the latter was calculated without reference to the 1853 break and wrongly given as 16 per cent. (*S. J.*, 1878).

Giffen quoted the increase in income tax assessment in the twenty years 1848 to 1868 as £135,498,000, or “about 60 per cent., or 3 per cent. per annum,” against a population increase of 1.3 per cent. per annum, in accounting for the depreciation of gold since 1848 (“*Economic Inquiries and Studies*,” I., p. 86).

(4) Change in Exemption Limit, 1876–7.

The change from £100 to £150 reduced the amount of income coming under gross assessments (Schs. D and E), and therefore affected the total gross assessments very materially.¹

Dr. Bowley estimated a total difference of £30,000,000,² which is very close to the amount arrived at in Appendix I. Giffen’s estimate of £4,800,000³ (for Sch. D) is manifestly inadequate.

On the whole we have had an epoch in which our capacity to reduce our debt must have greatly increased, as witness the fact that the gross amount of the value of property and profits assessed to income tax was £490,000,000 on the average for the five years 1870–4, and is now probably £710,000,000” (“*British Finance in the Nineteenth Century*,” *Edinburgh Review*, July, 1899).

Leone Levi compared gross assessments for 1861 with 1882 similarly (“*Progress of the Country*,” *S. J.*, 1884).

In considering the “recent rate of material progress in England” Giffen quoted (*inter alia*) the percentage increases

¹ Sir Algernon West’s evidence before the R. C. on Depression in Trade, 1886, on the effect of abatement and exemption changes, 1875–6, etc., rather confuses than explains the true position. *Vide* examples in Appendix I.

² “Changes in Wages in the United Kingdom between 1860 and 1891,” p. 246.

³ “Growth of Capital,” p. 11. Estimate, £960,000, “escaping assessment” through raising of exemption limit is one-fifth of the gross assessment affected.

between 1855-65, 1865-75, and 1875-85, and remarked:—"Making all allowance for changes in the mode of assessment by which the lower limit of the tax has been raised, for the apparent increase before 1875, which may have been due to a gradual increase of the severity of the collection, and for the like disturbing influences, I believe there is no doubt that these income tax assessments correspond fairly well to the change in the money value of income and property in the interval." The great difference between the 44 per cent. increase in 1865-75 and the 10 per cent. in 1875-85 is assigned to the fall in prices, "hence the tax assessments by themselves are not a perfectly good test in a question like the present" ("Economic Inquiries," II., p. 102).

Giffen was thus quite aware of the 1875 break, although he sometimes omitted to make the necessary allowances in other comparisons.

For example, he takes the average of ten years (gross income) 1867 to 1876-7, £492,000,000, as £15 10s. per head (of the population) and compares it with the ten years 1877-1886, £599,000,000, or average £17, and also compares the average per head for 1875-6 with 1885-6, when "the income per head is found to have even slightly diminished"; and he concludes:—"Unless, therefore, there has been something different in the progress of non-income tax incomes from what has taken place in income tax incomes, the inference would be that the appreciation of gold measured by commodities of late years is an appreciation which has not extended, or has yet extended very little, to the diminution of income per head" ("Economic Inquiries," I., p. 177).

(5) The Wear and Tear Allowance, 1878-9.

The effect on Sch. D has been explained.¹ The total gross assessments are also affected where any comparison is being made between a period before 1878-9 and one after that year. The effect is unimportant, and no illustrations are needed.

(6) The Change in the Exemption Limit, 1894.

The present limit, £160, was instituted in 1894-5. The gross assessments under Schs. D and E were affected, being

¹ P. 178.

reduced in volume,¹ so that the total gross assessments are also involved.

(7) Change in the Method of Assessing Sch. B, 1896-7.

This change was important, because, prior to this date, the full rental value of land had been included in the total gross assessments, and after that date only *one-third* of the value, without any real change in the circumstances.²

In the numerous comparisons covering the period 1894 to 1896 both (6) and (7) are generally ignored together.

(1) "The commercial and professional income of the country improved nearly a *hundred millions* during the decade 1891-2 to 1900, if we take gross assessments. But when we turn to the amount on which income tax was levied, nearly half of the improvement disappears."—W. R. LAWSON, "Two Record Budgets, 1860 and 1903," *Fortnightly Review*, May, 1903.

(2) In comparing the gross totals for 1878 with 1899-1900 Morgan Browne adds £35,000,000 to the latter "for the change in the method of computing the annual value of lands under Sch. B," making it £823,000,000 ("Sir R. Giffen's Indiscretion," *New Liberal Review*, February, 1902).

In a subsequent comparison £37,000,000 was added, making it £825,000,000 (*New Liberal Review*, April, 1902).

Correct adjustment is thus attempted for Sch. B, but (6) is omitted. A similar error is made by Colson ("Cours d'Economie Politique," II., p. 314), who is otherwise very clear and correct on the subject.

(3) "What the actual increase (of wealth) per head is since 1861 has already been glanced at. It cannot, in any view, be less than 25 per cent. in face of the figures showing the growth of income tax assessments between 1861 and 1901 from £335,500,000 to £788,000,000,³ or over 130 per cent., as compared with a growth of population, reckoning Great Britain only, of 60 per cent. This would imply an increase of 40 to 50 per cent. per head, and would certainly more than justify the assumption of an increase of 25 per cent. only, which is necessary to the doubling of the resources of the country. Reckoning, moreover, the changes in the income tax returns by which the gross amount is understated as compared with what was the case formerly, *that is adding*

¹ P. 212.

² *Vide* p. 88.

³ In later reports as £791,000,000 (*vide* explanation in 45th Report).

nearly forty million pounds to the above figure of £788,000,000,¹ the increase then would be no less than 140 per cent., as compared with an increase of 60 per cent. in population, and would imply an increase of wealth per head of over 50 per cent. Comparing 1871 with 1901 we have an increase from £465,000,000 to the above £788,000,000, or rather £828,000,000, or at the rate of about 80 per cent., as compared with an increase of 54 per cent. in the population of Great Britain only. This would be equal to an increase of 16 per cent. per head, and although not quite doubling the whole wealth of the country in thirty years, comes very near to doing so."—SIR R. GIFFEN, "A Financial Retrospect, 1861-1901": "Economic Inquiries," II., p. 323.

It will be observed, in the words italicised, that an addition of £40,000,000 is made. This appears to refer to the Sch. B break (No. 7), but all reference to breaks (4) and (6)—the changes in the exemption limit from £100 to £160—is omitted.

(4) *Vide* also Journal of Institute of Bankers, 1901.

(5) Comparing the 1889-90 total gross assessment with that for 1898-9 in his essay "Are we Living on Capital?" Giffen makes the allowance for £38,000,000 under Sch. B in 1889-90, but no allowance for the 1894-5 change in exemption limit, when he gives the increase as £631,000,000 to £759,000,000, or 20 per cent. in ten years.

The increase is contrasted with a 10 per cent. increase in population; "there is, consequently, an increase of the total capital per head as well as an absolute increase" ("Economic Inquiries," II., pp. 285-6).

(6) W. M. J. Williams, in a comparison designed to show the relative progress of population, revenue and commerce, uses the income tax assessments: 1855, £308,139,000; 1886, £529,412,000 (71 per cent.); 1895, £540,137,000 (2½ per cent.)—"An annual increase of 2¼ per cent. to 1886, while the period ending with 1896 shows but little over ½ per cent."

The comparison is of course worthless, since he not only ignores the 1875-6 and 1894-5 changes in exemption limit, but also sets the total *net* assessments for 1886 and 1895 against the *gross* for 1855, and all abatements and allowances are ignored. The handling is too careless to be of any use whatever ("The British Revenue, 1801-7," *Journal of Finance*, May, 1897).

(7) G. Drage ("Imperial Organisation of Trade," p. 28), in considering the general condition of the country, quotes the decadal total assessments 1861 to 1901, and divides by the population, without reference to the exemption limit changes, though the correction for Sch. B is introduced.

¹ See note ³ on p. 288.

(8) J. Ellis Barker gives the following table¹ :—

“ 1893-4 ..	£679·5	} Very good years. Yearly increase of income + £15,000,000.
1897-8 ..	734·5	
1900-1 ..	833·4	} Time of South African war. Yearly increase of income + £33,000,000.
1906-7 ..	943·7	
		} Bad years. Yearly increase of income + £18,000,000.

“ The foregoing table tells its own tale. The fact that British income subject to income tax increased very slowly during the good years which preceded the South African war, and that it increased very rapidly during the time of the war and during the bad years which followed it, suffices to show that our income tax figures are unreliable as an index to our prosperity—that they have been swelled, not by a great increase in our prosperity, but by the exertions of our tax collectors. . . . The increase in our income shown by the income tax statistics is fictitious.”

The first point is the correction of 1893-4 to 1892-3, which by increasing the divisor would make the yearly increase £11,000,000. If the correct figure for 1893-4, £673,700,000, is substituted, the increase is £15,100,000. But the second point is the fact that the 1894-5 break is ignored, and that the true *comparable* figures for 1892-3 and 1893-4 would make the average increase per annum £14,000,000 and £19,000,000 respectively. The third point is that the comparison is not fairly indicated. The influence of “good” or “bad” years must be looked for mainly in the Schs. D and E assessments, and the average yearly increases in the three periods are (correcting for “breaks”) £12,000,000, £27,000,000, and £12,500,000. Now the years represented in the first comparison are 1890, 1891, and 1892 (averaged) with 1894, 1895, and 1896 (averaged), and may fairly be put as 1891 with 1895; the second is, similarly, 1895 with 1898, and the third period 1898 with 1904. Mr. Barker’s “very good years” are those from the depth of the trade depression to the first sign of recovery; his “during the time of the war” is a period completely over *before* the war, during which trade rapidly recovered, and the “bad years which followed it” are really the actual years of the war, including the record year of 1900 and the subsequent set-back. The case for the unreliability of the figures as an index to prosperity is not in any way made out, but rather refuted. No evidence whatever is brought forward to

¹ “British Finances and Imperial Responsibilities,” *Fortnightly Review*, May, 1909.

show that the extra "activity" of taxgatherers coincided with the war period, and such action coinciding with the imposition of high rates of duty is *primâ facie* improbable. The figures given above are taken roughly as three years' averages,¹ though including the "one-year concerns" and the "five-year concerns"; if greater exactness is required, and we take only the "three-year concerns," the average increases are respectively 10½, 18½, and 4½ millions sterling, which correspond pretty closely with what we might have expected in these periods.

(9) Philip Snowden, M.P., contrasting the recent increase in the incomes of the "richer classes" with the position of the working classes, takes 1884-5 for comparison with 1894-5, showing an increase of £26,000,000 (against an increase in the next decade of £268,000,000), but if 1893-4 had been taken the increase would have been £43,000,000 (*Socialist Review*, March, 1909). Break (6) was ignored.

Use of Gross Assessments.

In addition to the foregoing examples, the following may be mentioned :—

The Inequality of Local Taxation.—Comparison of the effect of levying poor rate upon rateable value with the results which would arise if it were levied upon the income tax assessments under Schs. A, B, and D was ingeniously made by Sir R. H. Inglis Palgrave. He set out the actual poor rate in the £, grouping the separate *counties* according to the amounts. Against these were put the groups of counties resulting from levying rates on the assessments. He found that the grouping corresponded with great closeness :—"Neither an equalising of taxation, nor a gain to those counties which appear heavily weighted, would be caused by an alteration in the mode of assessment from a property to an income tax basis." The method of course ignores the centralising effect of Sch. D assessments, particularly for railways, canals, etc., rated in every parish and county, but assessed only in the great centres. This factor is much more important now than in 1871, and would make the comparison of little value. Even as it was then, the lightest "taxed" counties were Middlesex, 33 (maximum rate being 100), which on the rate index stood at 69; Derby, taxed at 36 and rated at 55; Warwick (Birmingham), taxed at 45 and rated at 58; Lancaster, taxed at 45 and rated at 62. Apart from this centralising factor, however, and where Sch. D assessments belonged properly to the places where assessed, the similarity in grouping is remarkable,

¹ *Vide* p. 176.

especially when it is remembered that the poor rate is computed on a valuation wholly lacking in uniformity ("Essay on Local Taxation, 1871," *S. J.*, p. 213).

DEDUCTIONS FROM "GROSS INCOME REVIEWED" TO ARRIVE
AT GROSS INCOME OF TAXPAYERS.

Exemptions.¹

(1) **Incomes not exceeding £160 a Year.**—The character of the figures under each schedule has been dealt with under the detailed deductions there given, and it has also been referred to in the description of "gross income reviewed."² Those references should be studied by any who wish to use these aggregated figures for the income tax as a whole.

The greater part of the total is due to the inclusion of all property under Schs. A and B, and nearly all the balance to the repayments on dividends and interest under Schs. C and D necessitated by the "stoppage at the source" system. The amount "dealt with by mistake"³ is insignificant, and it is quite a misapprehension to imagine that this sum represents the gropings of the tax officials just below the border line of liability.

"Amongst the various deductions made from the gross sum surveyed for purposes of income tax there are others besides those which are made in respect of abatements, and amongst these last are exemptions in respect of incomes which must approach, but which are shown to fall short of £160. The amount of these exemptions in 1905 was £52,000,000. If we assume, then, that the average for such incomes was £155, their total number will approximately have been 330,000. . . . We shall find that, of incomes belonging to this latter class (460,000 middle-class with incomes exceeding £150 but exempt because not exceeding £160), we are able to establish definitely, by means of the income tax returns, the existence of as many as 320,000; and if we suppose that of such incomes, which are 'surveyed' only to be exempted, one out of every three is not surveyed at all, their actual number and the estimate in the table will coincide."—W. H. MALLOCK, *Nineteenth Century*, March, 1910, p. 476.

These suppositions are all erroneous. The £52,000,000 is *not* made up of 330,000 incomes about £155 each, but of incomes

¹ The statistical effects of lowering the limit to £130—in the Budget of September, 1915—cannot be reliably known for several years.

² P. 281.

³ W. H. Mallock, "The Nation as a Business Firm," p. 62.

or parts of incomes of all magnitudes from £1 to £159, for owners of small cottages, occupiers of small holdings, recipients of £5 dividend from Lipton's shares, or £20 from Consols. The last part of Mr. Mallock's reference therefore falls to the ground, as the question of "surveying" incomes of £150 to £160 for *inclusion in these figures* does not arise.

An important point to note about the exemptions under Sch. A is that they are *net* income, the deductions belonging thereto being included with the deductions from liable property. Thus a house of rental value £24 (free from ground rent and interest) belonging to a person whose total income did not exceed £160 would appear in the statistics as follows:—

£24 in the "gross assessments," £4 in "repairs," £20 in the "exemptions," and *nil* in the "net assessments." If £6 mortgage interest were paid the sum in "exemptions" would be £14, and in "net assessments" £6.

In deducting exemptions to obtain the "gross income" of taxable persons, it is therefore necessary also to deduct the repairs applicable thereto under Sch. A.¹ The same applies to charities, etc.

The sequence of the official statistics for exemptions, not given for all schedules as *a whole* until recent years, has been broken as follows (the chief causes only have been given, and for details reference should be made to the separate schedules):—

- (1) 1842-53. Ireland omitted (all schedules).
- (2) 1842. "False gross" (Schs. D and E).
- (3) 1853. Exemption limit reduced £150 to £100 (all schedules).
- (4) 1876. Exemption limit raised £100 to £150 (all schedules).
- (5) 1894. Exemption limit raised £150 to £160 (all schedules).
- (6) 1882-3. Method of computing Sch. B altered.
- (7) 1896-7. Ditto.
- (8) 1894-5. Repairs allowance, Sch. A.
- (9) 1900-1. Method of compiling the statistics improved and repayments, etc., included.

¹ *Vide* p. 500.

Corrections for these breaks have been introduced into Table G4.

(2) **Charities, Hospitals, Friendly Societies, etc.**—This is the value of property under Sch. A which is either not charged to duty or upon which duty is repaid,¹ and of dividends and interest under Schs. C and D received by charitable bodies and applied to charitable purposes, upon which duty is also repaid.

The income of charities actually exempted in the assessment, Sch. A, was reduced in the statistics after 1894 by the amount of the repairs allowance,² so that the *gross* income is now rather more than is shown in the Reports.

Sir Thomas Whittaker says deductions should be made for "income of charities, hospitals, friendly societies, and municipal bodies *which are exempt from tax*" ("Ownership and Taxation of Land," p. 48).

These cases are not *ejusdem generis*.

Sir Thomas Whittaker thereupon deducts "local authorities" (£20,246,586 for 1907), evidently under a misapprehension, for he classes these assessments with those upon hospitals.

The assessments on local authorities are of two kinds—(1) in respect of property owned, or trading profits; (2) in respect of interest payable to individuals, secured on rates or on municipal property. In assessing (2) a set-off is allowed for nearly all payments under (1), and the total assessments on local authorities represent, almost to the entire extent, income distributed to individuals as interest on municipal loans, mortgages, etc.

(3) **Foreign Dividends belonging to Foreign Residents.**— "This exemption refers to interest or dividends, which if payable in the United Kingdom, fall within the scope of Sch. C. . . . Its effect is (1) to make statutory the relief which since 1842 has been accorded to foreigners under an administrative concession granted by your lordships; (2) to enlarge and make statutory the relief which since 1856 has been granted to colonists under a similar but more limited concession; and (3) to give like relief to British subjects resident abroad. A time limit is imposed for claims to this

¹ See p. 66.

² See p. 60.

relief, viz., six months from the end of the year for which the tax is charged.”¹

The deduction of the three foregoing classes from the “gross income reviewed” will give the “**gross income of taxable persons.**”

Impersonal deductions or allowances from gross income of taxable persons to arrive at the taxable income :—

(1) Repairs, land and houses.—This is fully dealt with under Sch. A.² It need only be repeated here that the statistics given refer to all property, whether the owners are exempt or liable.

(2) Empty property.—Also dealt with under Sch. A.³

(3) Wear and tear of machinery and plant.—Fully explained under Sch. D.⁴

(4) Other allowances, reductions and discharges.—This large miscellaneous and sweeping class is made up of a number of allowances of a different character (see separate schedules), but for the *most* part it represents actual *reductions* of the gross assessments, although additional *allowances* for repairs and wear and tear are also included here.

Personal allowances from taxable income⁵ made as adaptations of the tax to individual circumstances :—

(1) Abatements.

(2) Life insurance premiums.

(3) Relief in respect of children.

(1) Abatements.

These hold such an important place in the statistics utilised for purposes of investigation that they must be considered at some length. They are the best indication we possess of the number of incomes of various amounts at the lower range of incomes. In their inception they were a means to simple degression, and as they were extended they became a rough method of graduation in the lower incomes, effective and economical in administration. (Their disadvantages in hiding the true rate of tax are referred to under “Graduation—Virtual Rates.”⁶)

¹ 53rd Report, p. 102.

² P. 60.

³ P. 63.

⁴ P. 178.

⁵ P. 422.

⁶ P. 278.

In actual practice abatements are allowed in various ways :

(a) *In the Assessment.*—In this case the abatement is claimed before the assessment is made, and it is allowed as a deduction, wholly or in part, before the assessments are closed.

(b) *"By Schedule."*—After the assessment has been made and totalled, and during the period when the duty is being collected, abatements can be allowed and the duty deducted from the demand note.

(c) *By Repayment.*—This method is the only one available when the income is made up of taxed dividends, ground rents, interest, etc.

In the case of "mixed" incomes, the abatement is often allowed from direct assessments under Sch. D or Sch. E, or even Sch. A, as far as those assessments will go, and any balance due is claimed from the dividends by repayment. But since differentiation between "earned" and "unearned" income was introduced in 1907 the abatement must first be allowed from the "earned" income, so far as it will go, before any allowance is made from "unearned" income.

Until 1900 only the abatements under (a) above were shown in the statistics separately for each schedule, but the abatements for the tax as a whole under all three methods were given in a single total. Since 1900 the full abatements under each schedule have been given.

The history of the abatements has been as follows :—

1842-3 to 1852-3.	.	No abatement.							
1853-4 „ 1862-3.	.	No abatement, but a lower rate on incomes from							
		£100 to £150							
1863-4 „ 1871-2.	.	Abatement of £60 on incomes from	£100	to	£200				
1872-3 „ 1875-6.	.	„	£80	„	„	£100	„	£300	
1876-7 „ 1893-4.	.	„	£120	„	„	£150	„	£400	
1894-5 „ 1897-8.	.	{	„	£160	„	„	£160	„	£400
		{	„	£100	„	„	£400	„	£500
		{	„	£160	„	„	£160	„	£400
1898-9 „ 1914-15	.	{	„	£150	„	„	£400	„	£500
		{	„	£120	„	„	£500	„	£600
		{	„	£70	„	„	£600	„	£700

As a minor point it may be mentioned that the abatements prior to 1898-9 were granted to "persons"—a term which

included clubs and corporate bodies,¹ whereas since 1898-9 they have been applicable to *individuals*.

Numbers of Abatements.—The number of persons claiming abatements is, strictly speaking, unknown. But a very close approximation is obtained by dividing the total sum allowed as abatement in each class by the abatement itself. This is the method actually adopted for the official reports, and the number of abatements multiplied by the abatement will be found to give the total sum abated.

This method puts the number at a minimum, because the maximum divisor is used. As an actual fact, in a good many cases where the greater part of the abatement has been allowed from the assessment, and a small balance is left which could be claimed by repayment or by schedule, the claim is waived, forgotten or ignored. So the divisors should be some amount slightly less than £160, £150, £120, and £70 respectively, probably £158, £147, £116, and £65 approximately.

The evidence of Sir Henry Primrose before the 1906 Committee is of interest here. "I do not attribute much importance to that in the two lower abatements, the £120 and the £70, but I think in the £160 and the £150 it would have a certain importance, and I did have a calculation made on the basis of assuming the average claimed in the £160 class was £150, and the average in the £150 class was £140. That would bring up the total from 695,000 which we have here to 739,000. I think perhaps that is a little too much . . . it might be at least 720,000" ² (1903-4 figures). Personally I am quite satisfied that *at least* 90 per cent. of the abatements are given in full. What average deficiency in the remaining 10 per cent. is necessary to give a general deficiency of £10? Obviously £100. But for an average deficiency in these cases this is absurd—£30 would be an *ample* estimate, which would make the average abatement £157 instead of £160. An addition of 8,000 at the present time to the official figures for this class is adequate. To be set against it are doubtless

¹ Not including dividend-paying companies.

² Qs. 34 *et seq.*

some cases where the abatement is improperly claimed, on deficient statements of total income; .1 per cent. would not indict the nation for ignorance or guilt, and perhaps 1,000 might be taken off on this account.

Do all the people entitled to abatements claim them? Around this question rages much controversy, because it has an important bearing on the number of taxpayers and the distribution of wealth. It is known, of course, that some people, through sensitiveness, apathy, ignorance, or fear that their assessments will be scrutinised, do not claim, and the moot point is as to what proportion neglect their privileges. As the rate of tax becomes higher the penalty for neglect is greater and the extra burden is harder to bear. It may readily be supposed that when the rate was low, and less public attention was given to income tax matters, the proportion was much larger than in recent years, when we have high rates of tax, numerous repayment agencies willing to cope with the technicalities, and helpful text-books on the subject. There have doubtless been many who did not object to our impersonal system of taxation which attacked their incomes silently and piecemeal, but who dreaded assembling the components and revealing in a "total income" statement their real position to local officials and bodies of commissioners. But the differentiation in 1907 made total income statements still more necessary, and the cost of the luxury of entire secrecy became almost prohibitive. Nevertheless it remains a fact to-day that no one, unless his income is considerable and he is called upon for a super-tax return, need declare the *total* of his income if he is prepared to forego his privileges and pay at the full normal rate on all the separate components.

It is not surprising to find, therefore, that during the high rates of the South African war the number of abatements claimed rose rapidly. "Prior to 1900 there were an enormous number of people who through ignorance or inertia did not trouble to claim what they might have claimed. Then the question is, Have we exhausted the whole number of those people, or have we not, and how near have we come to exhausting them? My own opinion would be that . . .

still 10 per cent. did not claim. . . .”¹ “I think the proportion of people who do not claim would increase as you went up. For instance, there are a great many people who would not claim a 70s. abatement who would claim if they were going to get £8, which is the £160 abatement.”² Sir L. Chiozza Money agreed to make the total abatements (696,000) up to 750,000 to allow for “persons who neglect to claim or altogether escape taxation.”³

TABLE GI.—Number of Abatements, since 1894-5, on Incomes :—

—	£ 160—400.	£ 400—500.	£ 500—600.	£ 600—700.	Total.
1894-5	436,325	13,010	—	—	449,335
1895-6	449,003	20,375	—	—	469,378
1896-7	464,017	23,492	—	—	487,509
1897-8	481,306	26,056	—	—	507,362
1898-9	495,791	31,669	11,115	3,940	542,515
1899-00	515,680	38,055	16,861	6,714	577,310
1900-1	530,014	42,123	20,520	8,647	601,304
1901-2	554,727	46,967	23,899	10,490	636,083
1902-3	575,444	49,610	26,737	11,982	663,773
1903-4	603,338	51,922	27,777	12,879	695,916
1904-5	612,548	53,384	29,227	13,483	708,642
1905-6	622,437	56,305	31,100	14,886	724,728
1906-7	628,818	58,704	33,150	16,607	737,279
1907-8	638,482	64,560	39,166	22,272	764,480
1908-9	648,310	66,523	40,721	23,998	779,552
1909-10	649,100	66,763	41,215	24,890	781,968
1910-11	668,842	69,945	43,174	26,316	808,277
1911-12	689,352	72,554	44,686	27,257	833,849
1912-13	715,783	74,423	45,948	28,467	864,621
1913-14	751,522	77,437	48,304	30,243	907,506

The effect of the high rates in 1900-1 and succeeding years is very clearly shown by this Table, although the abatements

¹ Sir Henry Primrose, 1906 Committee, Q. 36. W. H. Price, writing just before this, reviewed the effect of increased abatements which were “no reflection” on the administration (*Quarterly Journal of Economics*, February, 1906).

² Sir Henry Primrose, 1906 Committee, Q. 139.

³ *Loc. cit.*, p. 40.

for the higher incomes had only just come into full swing, and the figures in respect of them for 1898-9 and 1900-1 are obviously short of the true numbers. The abatements for incomes above £400 show a much more rapid rate of growth than the £160 abatements, mainly because the high rates have made it increasingly worth while to claim. But the remarkable change in 1907 is eloquent of the effect of the "earned income" legislation which made total income claims almost imperative. The incentive to claim for an earned income of £650 is now perhaps not much less than the incentive to claim on one of £200, because it is no longer a question of the loss of duty on £70 and £160 respectively, but of a difference in rate on the *whole income*.

I am therefore of the opinion that the higher income abatement claims are now made in as great a percentage of cases as the £160 abatements. If we take the year 1911-12 on this basis as the "irreducible" minimum of unclaimed abatements, and *assume that the relative distribution* of these incomes has been unaltered for some years, we may find the deficiencies in earlier years in respect of £150, £120, and £70 abatements relative to the actual £160 abatement claims. Thus :—

	1911-12.	1907-8.		
£160 ..	689,352	638,482	instead of 638,482	
£150 ..	72,554	67,190	"	64,560 3 $\frac{1}{2}$ per cent. deficiency.
£120 ..	44,686	41,380	"	39,166 5 $\frac{1}{2}$ "
£70 ..	27,257	25,240	"	22,272 12 "
Total	833,849	772,300	764,480	(a difference of 7,820).
		1906-7.		
£160 . . .		628,818	instead of 628,818	
£150 . . .		66,180	"	58,704 11 per cent. deficiency.
£120 . . .		40,760	"	33,150 19 "
£70 . . .		24,860	"	16,607 33 "
Total . . .		760,620	737,279	(a difference of 23,350).
		1903-4.		
£160 . . .		603,338	instead of 603,338	
£150 . . .		63,520	"	51,922 18 per cent. deficiency.
£120 . . .		39,100	"	27,777 29 "
£70 . . .		23,850	"	12,879 46 "
Total . . .		729,810	695,916	(a difference of 33,900).

Having assumed that the incentive to claim was equal throughout in 1911-12, these comparisons give us the deficiencies due to differences in incentive in previous years. But we still have to estimate the percentage deficiency due to lack of incentive in the case of £160 abatements in those years, and then to apply that percentage absolutely to the total, as the *general* lack of incentive, adding the additional differences already ascertained for the higher incomes. Both in 1903-4 and 1906-7 the percentage deficiencies fall into a true series—46 : 29 : 18 and 33 : 19 : 11.

In this period the deficiency in the claims made in respect of incomes £600 to £700, £500 to £600, and £400 to £500 diminished 13, 10 and 7 per cent. respectively. One is emboldened to continue the series downward, and to assume that the £300 to £400 cases showed a difference of 4 per cent. and the £200 to £300 somewhat less, in which case the difference for the £160 abatements as a whole would be about 1 per cent. Of the increase in £160 abatements (25,480 in three years) about 6,000 would therefore be due to increased incentive and the balance to a genuine increase in the numbers of incomes at this stage. It is not unreasonable to assume, with such a considerable advance in the other stages, that the £160 abatements have increased 5 per cent. in the last ten years, especially in view of the 1907-8 statistics. As compared with the 1911-12 figures, therefore, abatements in 1903-4 were deficient as follows :—

(1) On the higher incomes as shown .	33,900
(2) On the whole number, including	
(1), 4 per cent.	29,200
Total	63,100

For 1906-7, similarly, 42,300, and for 1907-8, 23,300.

To ascertain the *absolute* deficiency in these years the deficiency in 1911-12 must be added. I do not think the present figure exceeds 20,000 on a reasonable review of all the facts, so that the total deficiency in 1903-4 would be 83,000, in 1906-7 62,300 and in 1907-8 43,000. This

TABLE G2.—Abatements ('000 omitted).

Year.	Allowed in the Assessments.				Official Figures.— Total allowed in the Assessments.	Adjustments Required.	Revised Figures— True Amount including Repayments.	Minimum Number of Claimants (thousands).	Abatement allowed.
	Sch. A.	Sch. B.	Sch. D.	Sch. E.					
1863-4	£ 100	£ 499	£ 7,500	£ 1,150	£ 9,249	+	£ 465	161.9	
1864-5	200	1,301	8,820	1,430	11,751	+	22	196.2	
1865-6	200	1,301	9,500	1,980	12,981	+	39	217.0	
1866-7	200	1,300	10,210	1,860	13,570	+	28	226.6	
1867-8	200	1,285	10,830	1,947	14,262	+	42	238.4	£60 on incomes £100 to £200.
1868-9	204	1,290	11,441	2,012	14,947	+	53	250.0	
1869-70	208	1,300	12,006	2,130	15,644	+	158	263.4	
1870-1	168	1,283	12,936	2,193	16,580	+	266	280.8	
1871-2	178	1,319	13,592	2,381	17,470	+	239	295.1	£80 on incomes £100 to £300.
1872-3	239	1,749	23,134	4,376	29,498	+	1,118	382.7	
1873-4	418	2,970	25,280	4,717	33,385	—	117	415.8	
1874-5	446	3,121	27,403	4,863	35,833	—	334	443.7	
1875-6	458	3,185	29,193	5,332	38,168	—	312	473.1	
1876-7	626	3,497	27,586	5,135	36,844	—	764	300.7	£120 on incomes £150 to £400.
1877-8	709	3,643	30,044	5,480	39,876	—	961	324.3	
1878-9	757	3,723	31,470	5,823	41,773	—	269	345.9	
1879-80	736	4,194	32,265	6,014	43,209	—	238	358.1	
1880-1	851	4,390	32,861	6,213	44,315	—	192	367.7	
1881-2	915	4,516	33,598	6,541	45,570	+	85	380.5	
1882-3	854	4,358	34,686	6,903	46,801	+	459	393.8	
1883-4	1,027	4,689	35,461	7,209	48,386	+	319	405.9	
1884-5	1,098	4,822	36,377	7,632	49,929	+	691	421.8	
1885-6	965	4,491	37,314	8,001	50,771	+	1,271	433.7	

[illegible]

Not given separately, and not now necessary.

result agrees very fairly with Sir Henry Primrose's estimate, as at 1905, already quoted.

Dr. Bowley shows the influence of the rate of tax upon the abatements graphically, and thinks that instead of adding 13 per cent., as in 1903, we should now add less, say 6 per cent. (*Quarterly Journal of Economics*, February, 1914).

It is quite clear that the rapid advance in numbers in recent years has been partly through a diminution in the number of non-claimants.

Comparison of abatements 1902-3 and 1911-12 :—

" This growth of more than 26 per cent. in the number of small taxpayers may partly be accounted for by the greater vigilance of the Commissioners, but it is safe to assume that it represents a real advance, and the rise of an increasing portion of the population above the £160 limit " (*Economist*, 1913, p. 879).

The growth is due probably as much to the greater " vigilance " of the taxpayer as to the bringing in of people who had formerly evaded tax. But when both factors are allowed for, a considerable margin must remain for the third factor : a real advance.

The abatements on incomes " £150 " (misprint for £160) to £500 from 1895-6 to 1909-10 were used as evidence on the Standard of Living by W. T. Layton, *Economist*, 1911, p. 442.

Table G2 gives the official figures from 1863-4, and also the adjusted or corrected figures, the details of which are explained in Appendix II. It is perhaps fortunate that the *net* adjustment is small, owing to the component adjustments counterbalancing each other to a great extent.

The chief use of abatements statistics in connection with the number of taxpayers and distribution of income is dealt with in Chapter XIII.

(2) Life Insurance Premiums.

This allowance originated in 1853. It extended to insurances effected with British companies upon the taxpayer's own life, or on that of his wife, and included deferred annuities, covering also any liability under an Act of Parliament to have an annual sum deducted from salary or stipend to secure a deferred annuity for widow or children after the

taxpayer's death. The amount of the *annual* premium was allowable, with a limitation to one-sixth of the total net income. The important provision was made that it should not operate as a deduction from income for the purpose of computing income for exemption or abatement.¹ It was extended two years later to insurance with friendly societies, provided the premiums payable were not for shorter periods than three months,² and then to contracts for deferred annuities with the National Debt Commissioners. In 1904 it was extended to insurances with companies in British possessions, and in 1906 to insurances with foreign insurance companies doing business in this country. The restriction to annual or quarterly payments no longer applies, and payments on weekly "*industrials*" are allowed. Insurance of children is not admitted.

The allowances are made from the assessments, by schedule, or by repayment, as the case may require, and repayment can be claimed for three years. (Under Schs. A and B no allowances are made *in* the assessment.)

The Theory of the Allowance for Life Insurance.—Under the old Income Tax Act of 1806 the allowance was limited to persons whose incomes were less than £150 from particular sources. Under the 1853 Act it was general, and was a concession to a particular kind of thrift which it was considered desirable to encourage, meeting, in a small measure, the contentions of those who thought all "*savings*" should be exempted in a general income tax. It must be remembered that the capital sum insured, whether received as an endowment during the life of the assured or at his death, does not rank as income chargeable to tax. Therefore the modern developments of life insurance have provided ready means of exempting savings from taxation, not merely in the sum paid to meet the death risk, but also in the additional sums included in the premiums, which are, in effect, plain investments made by the agency of the insurance company. For example, on an ordinary "*with profits*" policy, the bonus declared annually can be realised and applied *in effect* to the

¹ 16 & 17 Vict. c. 34, s. 54.

² 18 & 19 Vict. c. 35, s. 1.

payment of premiums, reducing them to a net figure. But the actual *gross premium paid* is allowable, and it is obvious that by paying a premium largely in excess of the actuarial requirements of the capital sum assured, and taking a large annual bonus, the allowance for premiums against the income tax may be much in excess of the true insurance.¹ Again, if two men desire to retire at 60 each with £5,000, one may effect his purpose by annual investments and re-investments of the dividends, and the other may achieve it by an endowment policy. The difference between them, so far as income tax is concerned, is obvious.

Payments *for* insurance, therefore, may be said to be allowed to a greater extent than strict theory would justify. When the payments *from* insurance are considered, it will be found that the balance is to some extent redressed. For a life insurance company is rarely assessed on its profits only, in the sense of that balance between its receipts and its expenses which is retained by the company for its shareholders.² It is really taxed on the greater part of its *receipts*, because its main source of income is dividends from various stocks taxed by deduction, and thus it bears tax upon a sum in excess of its "profits." So if a bonus is received from a company no question of tax may be mentioned, but it is nevertheless paid out of taxed sources, being *pro tanto* reduced by the tax, and may therefore be regarded as a fully taxed receipt. This is only as it should be, for in no case would the bonus be directly assessable upon the recipient. But *all* the bonuses are so taxed whether paid to persons with incomes above £160 or not. In so far as the taxed dividends of stocks ultimately reach exempt persons in this way, by life insurance bonuses, the income tax statistics for "liable persons" are excessive, because repayment cannot be claimed and the sums in question by that means included in the "exemptions," as they might be if paid direct to the recipient from the original *source* of the income.

The statistics of the life assurance allowance have no

¹ Abuse of this feature, particularly in regard to supertax, has been the subject of special legislation in the Finance Act, 1915.

² But see recent modifications, Finance Act, 1915.

great value except to show, roughly and as a minimum, the growth of this class of investment amongst income tax payers.

This allowance should *not* be deducted from the gross assessments for ordinary purposes of ascertaining the true income of taxpayers.

W. H. Mallock says that much is included in gross assessments which, before the net incomes of private individuals is reached, "must be thrown overboard." One of these elements comprises "amounts which are not income at all, but are on the contrary outgoings, comprising insurances. . . ." "Upkeep and insurances amount to £61,700,000 (1905)" ("Social Reform, p. 106 ; similarly on p. 119).

From this it is clear that "life insurance premiums" are included intentionally, but in no sense can they be termed an impersonal deduction like "repairs."

For the difference in the allowances for the purposes of supertax, *vide* p. 334.

(3) Allowance for Children.

This allowance was instituted in 1910. Any person having a total income between £160 and £500 might claim a £10 deduction from his assessments for each child living and under 16 years of age at the beginning of the year. Step-children are included ; but not illegitimate children unless the parents have subsequently married each other. In 1914 the allowance was doubled.¹ The assessment allowed in 1910-11 was £5,050,283 and in 1912-13 £5,860,262. Division by 10 will give 586,000 as the *minimum* number of the children (under 16) of these taxpayers. From an income of £170 it is obviously impossible to allow, in addition to the £160 abatement, for more than one child, although there may be four or five children in the family, and these ineffective marginal cases prevent the figures from having much statistical value. In time they may perhaps possess some sociological or eugenic value if they enable any comparisons to be made or changes in proportions to be observed.

¹ Raised to £25 in September, 1915.

TOTAL NET ASSESSMENTS : THE INCOME ON WHICH INCOME TAX WAS RECEIVED.

These figures, representing the total net assessments of all the schedules, are often used for comparative purposes. *No figures can be less adapted for such use*, because practically every legislative modification of the tax affects the net assessments. They are obtained by taking from the gross assessments *all* the deductions—not only those which represent non-taxable income and those which, as *expenses*, must come off to get “taxable income,” but *also* all the abatement devices, children’s allowances, which are the mere machinery of the faculty principle, designed to give the same effect as different rates of tax.

An important change was made in 1900 (in the 45th Report). Up to that time the *net assessment* was given, representing the state of affairs at the stage when the assessments were totalled and closed, without reference to the subsequent allowances by schedule or repayment. “We propose to discontinue altogether the term ‘net assessments’ hitherto employed in our reports. . . . The gross total of income brought under notice of the department undergoes diminution in various ways and by various steps until it reaches the final figure of income on which tax is actually received, and on each occasion of diminution the term ‘net’ may be, and in the practice of the department is, applied to the reduced figure. In this way the term ‘net assessment’ by itself is liable to cause confusion, and as it seems to us that the figures of any intermediate stage between gross income reviewed and the income on which tax is finally paid are of little public or permanent interest, we desire in future to exclude them from our reports.”¹ (The past figures were corrected for ten years, but no official correction of “net” assessments has been published for the earlier period.)

For comparative statistical purposes the “net income on which tax was received” has little value. The really useful figure is intermediate between this and the gross, and is now termed the “*taxable income*.”² Nevertheless these figures

¹ 45th Report, p. 168.

² *Vide* p. 295.

are often used for comparison with past years, and therefore some comments must be made.

Net Assessments—Sequence : Comparisons between Years.

The *chief* breaks are ¹ :—

- | | |
|--|---|
| (1) Ireland. | } <i>Vide</i>
under
" Gross
Assess-
ments." |
| (3) Exemption limit, 1853. | |
| (4) " " 1876. | |
| (6) " " 1894. | |
| (7) Change in method of assessing Sch. B, 1896-7. | |
| (8) " " " " 1882-3. | |
| (9) Abatements introduced and extended, 1863-4. | |
| (10) " changed, 1872-3. | |
| (11) " " 1876-7. | |
| (12) " " 1894-5. | |
| (13) " " 1898-9. | |
| (14) Deductions for repairs introduced, 1894-5. | |
| (15) " " " extended, 1909-10. | |
| (16) Allowance for children introduced. | |
| (17) Statistical change in 1900 in " net assessments." | |

A few examples of comparisons may be given :—

"(1) The wealth of the classes in Germany has increased as follows :—

	Income subjected to Income Tax in Prussia (allowing for abatements).		Income subjected to Income Tax in Great Britain (allowing for abatements).
	£		£
1892.	298,069,881	..	537,151,200
1909.	660,981,000	..	652,886,576

"Income tax is levied, and income is estimated, on different principles in the two countries. Therefore the total sums given are not strictly comparable. However, the foregoing statement is of the greatest interest, inasmuch as it shows that the income of the classes in Germany has increased by about 125 per cent. during a period when it has increased by only 25 per cent. in Great Britain. The trifling increase of about 25 per cent. of the income subjected to tax in this country is merely equal to the

¹ *Vide* also Sch. D, " Life Insurance," p. 207.

increase of the population during the same period. Therefore, individual wealth has apparently remained almost stationary in Great Britain. However, in view of the fact that the British income tax collectors have of late years 'put the screw on' in an unprecedented manner, it seems likely that the income of Great Britain has in reality remained stationary, or has more probably decreased, during a time when it was almost doubled in Germany." —J. ELLIS BARKER, "Modern Germany," p. 697.

The *actual* figure for 1909 was £686,812,000. But in any case the comparison ignores the important diminution of net income arising from the changes (11), (12) and (13). The failure to mention the respective limits of exemption—£45 in Prussia and £160 in England—further detracts from the *bona fides* of the comparison.

(2) Sir Vincent Caillard compares the increase in the net income assessed in 1900-1 over 1891-2, 10.6 per cent., with the increase in the assessed income in Prussia (£161,000,000 to £235,000,000), 46.4 per cent., and remarks:—"Increased abatements for small incomes have been granted since then, *but other causes* already mentioned probably counterbalance this" ("Imperial Fiscal Reform," p. 229).

(3) The *Daily Telegraph* pamphlet, "Imperial Reciprocity" (pp. 49, 181-192), compared the net assessments 1891-2 and 1900-1 without reference to "breaks" (12), (13), (14). *Vide* "Exposure" by J. M. Robertson, "Trade and Tariffs," p. 318.

(4) W. R. Lawson, quoting Mr. Gladstone's tests of the growth of national wealth (to set against national expenditure), namely, the Schs. A, B, and D assessments, remarks that the assessments "are of two kinds, and it makes a considerable difference which of them is here employed. First, there are the original or gross assessments, and, secondly, there are the assessments minus exemptions and abatements, on which income tax is actually paid. The latter are obviously the more trustworthy gauge of national wealth, but for some reason or other scientific statisticians prefer the first. It gives them much larger figures to play with, and for theoretical purposes that is no doubt an advantage. In order to spare ourselves the invidious task of choosing between them, we shall give them both—first the gross, and then the net, or paying assessments. It may interest our readers to see how large a proportion of the assessable income escapes taxation" ("Two Record Budgets, 1860 and 1903," *Fortnightly Review*, May, 1903).

The last passage is, to say the least, unhappily expressed, and

some confusion of thought seems to run through the earlier part. Comparing 1891-2 with 1900-1, he finds an increase (on the three schedules aggregated) of 21 per cent. "The income actually assessed and taxed was, however, only 80 per cent. of the gross, and its rate of increase less than one-half, $9\frac{1}{2}$ per cent." (breaks Nos. 11, 12, and 13 ignored).

MISCELLANEOUS SOURCES OF INFORMATION.

H. C. 339—1851. Defaulting Collectors, 1848 to 1850.

H. C. 362—1852. Year 1850. Repayments of tax under various classes.

H. C. 218—1859. Income tax in Dublin, 1855-6, 1856-7, 1857-8.

H. C. 136—1860. Net assessments, Schs. A, B, and D, 1842, 1853, 1857 compared.

H. C. 476—1860. Rates, etc., on Government property.

H. C. 592—1860. Assessments from 1853-60, with classification.

H. C. 172—1862. Income tax appeals (Northampton survey).

H. C. 388—1862. Ditto.

H. C. 377—1862. 1860-1 assessments, with proposed abatements on Mr. Hubbard's scheme.

H. C. 248—1863. Ditto.

H. C. 209—1864. Great Britain and Ireland. Gross receipt of income tax divided by estimated population, 1854-63.

H. C. 549—1864. Metropolitan divisions and other towns, etc. Amounts of duty assessed, and details of dates for closing accounts.

H. C. 476—1865. Abatements, 1864-5.

H. C. 324—1866. Scotland : State of the collection of tax and dates of closing accounts.

H. C. 393—1867. Ditto.

H. C. 198—1868-9. Life insurance income tax repayments, 1854-5 to 1867-8.

H. C. 317—1872. Income tax collected by Excise officers, 1864-5, etc.

H. C. 363—1878-9. Gross Schs. A, B, and D, and yield per penny for each.

H. C. 388—1878-9. Parliamentary constituencies—population, etc. Property charged for each division.

H. C. 373—1880 (2). Friendly society return ; co-operative societies and income tax.

H. C. 195—1887. Corporation duty return.

H. L. 289—1888. Charities and income tax—procedure, with list of reasons for non-exemption in certain cases.

H. C. 163—1890. Incidence of taxation (England, Scotland and Ireland, 1890-1).

H. C. 340—1903. Condition of trade and people, United Kingdom. Statistics at ten-year intervals, 1801 to 1901, including income tax yield per penny ; gross incomes under review ; number of persons and firms assessed ; income from trades and professions ; total Sch. A, etc.

Hansard (51), 1.4.13. Net produce per penny, 1904-5 to 1911-12.

Hansard (52), 6.5.13. 1901-2 and 1911-12 gross income, England, Scotland, Wales and Monmouth, under different schedules.

Financial statement, 1914-15, virtual rates, and effect of graduation.

MISCELLANEOUS RETURNS RELATING TO *Duty collected.*

H. C. 315—1844. Duty collected 1842-3, distinguishing "offices and pensions, Government departments."

H. C. 107—1846. Each schedule, 1843-4 and 1845.

H. C. 747—1847. Ditto.

H. C. 100—1847. Ditto.

H. C. 65—1851. Schs. C, D, and E, 1815 and 1842-50.

H. C. 399—1852. 1842-51—amounts under each schedule.

H. C. 556—1852. 1842-51—Sch. D and duty.

H. C. 69—1859 (2). 1855-6—amends the 1st Report as to total duty.

H. C. 23—1859 (2). Scotland—population and total income tax.

H. C. 183—1871. Metropolis—total duty, 1843 to 1867, and percentage of loss by collectors' defalcations.

H. C. 221—1871. Duty under each schedule, 1868-9, by counties, for England and Wales.

H. C. 369—1875. 1814 to 1873—England, Scotland, Ireland. Tax charged, and percentage of each schedule to whole.

OTHER MISCELLANEOUS INFORMATION.

Hansard (16), 18.4.10. Years 1881, 1893-4. Aggregate income, life insurance, and abatements; percentage increase and net produce.

Hansard (39), 17.6.12. General totals, 1908-9 and 1909-10.

Hansard (15), 23.3.10. Total income, 1894-5 and 1907-8, and increase in yearly net produce and average virtual rate.

Hansard (13), 25.11.09. Total income, life insurance, and abatements, 1898-9 and 1907.

Hansard (43), 14.11.12; (45), 9.12.12. Ireland—details for towns and provinces, Belfast, Dublin, Londonderry, Cork, and Limerick. Gross Schs. A, D, and E, etc., 1911-12.

Hansard (45), 19.12.12. Scotland—details for Glasgow, Edinburgh, Aberdeen, and Dundee.

For the first year of the tax in Ireland the following special details were given (in provinces) ¹ :—

Duty, £569,271. Sch. D assessments, 21,314; Sch. E, 2,804. Returns accepted, 18,641; returns increased, 3,114, with duty £6,318; cases of no return, 1,713; assessed to duty, £5,374; appeals, 2,251, of which 1,441 were confirmed, and 810 relieved, etc.

SECTION II.

RELIEF TO EARNED INCOMES—DIFFERENTIATION.

The full story of the origins of this change may be found in the Report of, and evidence before, the Income Tax Committee of 1906. It was embodied in legislative enactment in the Finance Act, 1907, and is described in the 51st Report.²

“Earned” income includes business, professional and farming profits immediately derived by an individual from the personal exercise of his business, profession, etc.; remuneration

¹ H. C. 471—1854.

² *Vide* Chapter XIV.: “Categories of Income.”

ration from any office or employment of profit held by an individual ; income from any property attached to or forming part of the emoluments of any office or employment. The relief in respect of ordinary pensions, etc., may be allowed even though the individual or husband or parent may have contributed thereto. There are two important limitations to the relief :—

(1) It must be claimed not later than the 30th September in any year.¹

(2) It applies only to the earned parts of total incomes not exceeding £2,500 per annum. The 1907 limit was £2,000 ; in 1909 a relief was also given to incomes between £2,000 and £3,000 ; and in 1914 there were different rates applying to the stages—(a) not exceeding £1,000, (b) £1,001 to £1,500, (c) £1,501 to £2,000, and (d) £2,001 to £2,500.

The effect upon the statistics has been small. The 52nd Report (p. 139) stated that relief was granted in approximately three-quarters of a million cases (1908), and no further information is available.

The new tables showing “ taxable income ” very conveniently give the sums chargeable at each rate, so that the aggregate falling within the respective limits is known. In using this information the following points must be borne in mind :—

The “ earned ” income proportion is less than the sum that might rightly be assigned under the definition for these reasons—

(1) Failure to claim by the proper date keeps a certain amount of income assessed at the normal rate.

(2) The limit of “ total income ” keeps in the assessment at the highest rate a considerable mass of earned income belonging to the more prosperous classes.

On the other hand, (3) the official “ earned income ” is swollen by the inclusion of so much profit as may be assigned to interest on trade capital in ordinary business, where the capital belongs to the proprietor. The whole of the “ profits ” of a draper are “ earned income,” although he may have £2,000 invested in his business.

¹ Restriction to be abolished in future.—Budget of September, 1915.

(4) But in the case of a private company, if the profits are taken as dividends, and not as remuneration, they rank as "unearned."

These considerations severely limit the value of the figures for economic purposes, but in a few years, when some dynamic tendencies become obvious, these statistics will assume great importance. The earned income (up to the £2,000 limit) rose from 23·8 per cent. of the whole in 1908-9 (ignoring the first year of imposition) to 25·4 per cent. in 1912-13, and this rise cannot have been wholly due to the diminution in cases falling under (1), above, though probably a tendency to increase remuneration under (4) will account for a great deal.

Table G3 gives the available official information.

EVASION.

The question of evasion is necessarily an important one whenever the use of taxation statistics for economic and social science is under consideration. So far as income tax is concerned, the extent to which the "income assessed" falls short of the true income through evasion, wilful, negligent or ignorant, has been the subject of the most divergent estimates. The evidence given in various places, and the opinions expressed, may be briefly summarised, chief stress being laid upon the actual effect on the statistics for ordinary economic uses. We have first to distinguish carefully between "legal evasion" or "avoidance" and evasion proper. If a man takes advantage of any flaw in the scheme of taxation or has income which cannot legally be assessed, the case is quite distinct from failure to render what is legally due. Evasion proper is of two kinds: wilful evasion and evasion due to negligence or ignorance.

The Income Tax Committee of 1905 dealt specifically and at great length with "fraud and evasion."¹ Their report pointed out that "something like four-fifths of the income tax now brought into account is either assessed at the source or subjected to other satisfactory methods of verification."

¹ Cd. 2575, p. v.

TABLE G3.—Income Charged and Tax paid at each Rate (£000 omitted).

Year and Rates of Tax.	1.	Gross Income brought under the Review of the Department.	2.	Exemptions (under $\text{£}160$ Charities, etc., Foreign Residents). Allowances (Repairs, Void Property, Wear and Tear, Over-charges, etc.).	3.	Taxable Income (col. 2 less col. 3).	Allowances from Taxable Income.				Income on which Tax was received (col. 4 less col. 8)	Net Produce of Tax.	Average virtual Rate levied on each Pound of Taxable Income.
							Abate-ments.	Life Insurance Premiums.	Relief in respect of Children.	Total of cols. 5, 6, and 7.			
			£			£	£	£	£	£	£	£	d.
1907-08*	1s. 9d. Total		980,117	180,804	{	611,660	31,100	4,100	—	35,200	576,460	28,823	11·31
						187,653	87,000	5,800	—	92,800	94,853	3,557	4·55
						799,313	118,100	9,900	—	128,000	671,313	32,380	9·72
1908-09	1s. 9d. Total		1,009,936	{	{	627,348	30,614	4,003	—	34,617	592,731	29,637	11·34
						196,710	89,661	6,457	—	96,118	100,592	3,772	4·60
						824,058	120,275	10,460	—	130,735	693,323	33,409	9·73
1909-10	1s. 2d. † 1s. 9d. Total		1,011,100	{	{	608,066	26,597	3,532	598	30,728	577,338	33,494	13·22
						6,695	—	216	—	216	6,479	324	11·61
						207,465	93,961	7,151	3,357	104,470	102,995	3,862	4·47
						822,226	120,558	10,900	3,956	135,414	686,812	37,680	11·00

TABLE G4.—“Taxable Income” as now given in Official Reports, carried back to 1842 in the Conditions of 1876-93 and those of 1913 respectively.

MILLIONS.

Year.	Official Figures hitherto generally used for Compara- tive Purposes, but not properly adapted for such use.		“Taxable Income.” True Compara- tive Series now substituted for Official Tables.			
	Gross Assess- ments or Gross Income under Review.	Net Pro- duce per Penny.	On Conditions of 1876 to 1893. (£150 Exemption Limit. No Re- pairs Allowance.)		On Conditions since 1894. (£160 Exemption Limit and Repairs Allowance.)	
	£	£	£	+ or -	£	+ or -
1842-3	251.0	.772	204.1	.7	186.2	1.2
1843-4	243.8	.751	201.4	2.4	183.6	2.9
1844-5	244.3	.749	201.3	2.7	183.5	3.2
1845-6	253.0	.785	207.9	.7	189.9	1.2
1846-7	254.6	.799	209.6	2.3	191.6	2.8
1847-8	256.4	.795	208.5	2.8	190.3	3.3
1848-9	259.2	.790	209.3	.7	190.9	1.2
1849-50	256.1	.782	208.0	1.4	189.4	1.9
1850-1	257.4	.787	209.1	1.3	190.4	1.8
1851-2	259.5	.799	210.7	.7	192.1	1.3
1852-3	262.4	.810	213.0	.7	194.2	1.3
1853-4	308.3	1.004	226.4	.5	206.9	1.1
1854-5	308.1	.998	224.9	1.0	205.3	1.6
1855-6	307.4	1.001	226.3	.1	206.5	.7
1856-7	313.1	1.023	230.9	1.0	210.9	1.6
1857-8	327.1	1.089	246.0	1.0	224.8	1.6
1858-9	328.1	1.092	247.8	.5	226.5	1.1
1859-60	335.2	1.117	254.1	.5	232.4	1.1
1860-1	335.6	1.122	254.7	.5	232.9	1.1
1861-2	351.7	1.161	267.7	.5	244.5	1.1
1862-3	359.1	1.193	274.8	.5	251.2	1.2
1863-4	371.1	1.218	284.2	.5	260.1	1.2
1864-5	395.8	1.312	307.8	.6	282.4	1.4
1865-6	413.1	1.377	324.7	.7	298.5	1.6
1866-7	422.9	1.412	333.4	.8	306.6	1.7
1867-8	430.4	1.427	336.8	.9	308.7	1.6
1868-9	434.8	1.434	340.2	1.0	311.8	1.9
1869-70	444.9	1.474	349.3	1.0	320.3	2.0
1870-1	465.5	1.588	376.8	.9	346.1	1.9
1871-2	482.3	1.650	391.8	.8	360.6	1.9
1872-3	513.8	1.724	424.0	.7	391.6	1.9
1873-4	549.4	1.855	452.5	.6	418.6	1.9
1874-5	571.1	1.945	475.4	.5	440.3	1.8
1875-6	579.4	1.978	485.0	.5	449.2	1.9

"Taxable Income"—*continued.*

Year.	Official Figures hitherto generally used for Compara- tive Purposes, but not properly adapted for such use.		"Taxable Income." True Compara- tive Series now substituted for Official Tables.			
	Gross Assess- ments or Gross Income under Review.	Net Pro- duce per Penny.	On Conditions of 1876 to 1893. (£150 Exemption Limit. No Re- pairs Allowance.)		On Conditions since 1894.. (£160 Exemption Limit and Repairs Allowance.)	
	£	£	£	+ or -	£	+ or -
1876-7	570·3	1·905	495·0	·2	458·0	1·6
1877-8	578·3	1·909	499·0	·2	461·5	1·6
1878-9	578·0	1·879	494·5		456·7	1·6
1879-80	576·9	1·847	488·2		449·8	1·6
1880-1	585·2	1·867	494·3		455·6	1·6
1881-2	601·4	1·916	508·1		468·7	1·6
1882-3	612·8	1·963	521·2		481·1	1·6
1883-4	628·5	2·017	535·7		494·1	1·7
1884-5	631·5	2·002	534·3		493·6	1·7
1885-6	629·9	1·980	530·7		489·8	1·6
1886-7	629·4	1·965	528·8		488·0	1·5
1887-8	636·2	1·993	535·7		494·7	1·4
1888-9	645·2	2·045	549·8		508·3	1·3
1889-90	669·4	2·141	573·5		531·2	1·2
1890-1	698·4	2·214	592·6		549·8	·9
1891-2	710·8	2·238	599·2		556·0	·8
1892-3	712·3	2·240	601·1		557·6	·7
1893-4	706·1	2·191	591·7		547·8	·6
1894-5	690·3	1·982	593·7		551·4	
1895-6	709·7	2·033	609·0	·2	566·7	
1896-7	700·5	2·099	629·0	·2	585·4	
1897-8	729·3	2·188	654·9	·4	610·3	
1898-9	758·6	2·284	686·2	·6	639·6	
1899-1900	791·7	2·354	709·6	·8	661·6	
1900-1	833·4	2·475	743·7	1·0	694·6	
1901-2	867·0	2·531	764·0	1·2	713·9	
1902-3	879·6	2·536	770·2	1·4	719·5	
1903-4	902·8	2·563	784·4	1·6	731·6	
1904-5	912·1	2·581	791·3	1·8	737·9	
1905-6	925·2	2·633	807·8	2·0	753·4	
1906-7	943·7	2·667	819·2	2·2	763·8	
1907-8	980·1	2·698	855·5	2·4	799·3	
1908-9	1,009·9	2·784	881·5	2·6	824·1	
1909-10	1,011·1	2·691	880·0	2·8	822·2	
1910-1	1,045·8	2·739	897·9	3·0	838·3	
1911-2	1,070·1	2·830	927·5	3·2	866·4	
1912-3	1,111·5	2·970	969·2	3·4	907·2	
1913-4	1,167·2	3·109	1,016·0	3·6	951·0	

The rapid conversion of businesses into limited companies had been a material factor towards this position, and, as regards income from abroad, the "Coupons Act," 1885, had provided for the deduction and payment of tax by bankers or dealers in respect of interest or dividends on foreign and colonial investments paid by means of coupons, and this was immediately salutary in its effects.¹ The Committee considered there was "abundant evidence to show that in the sphere in which self-assessment is still requisite there is a substantial amount of fraud and evasion." But they would attempt no quantitative estimate. As a remedy for evasion due to ignorance and carelessness, and the "conscience-salving method" of passive neglect, compulsory provisions as to forms were recommended. For wilful evasion an extension of powers of recovery and punishment and the power to make assessments for three years past were advised, while compulsory returns of salaries were suggested.

The evidence showed that out of a total of 649 millions sterling there was appreciable room for evasion only in respect of 150 millions.² Many persons who speculate upon the Stock Exchange do not make returns, but on the whole this is a gain to the Revenue, since the balance of *private* transactions would generally be a loss.³ Evasion was particularly prevalent in respect of incomes from abroad, and from the activities of financial syndicates, but not perhaps so much so as was generally believed.⁴ The former had been greatly diminished of late years,⁵ but the manner in which foreign dealers, companies, and bankers trading in this country through agents were able to avoid taxation to an increasing extent was thoroughly considered and deemed to be important.⁶

Considerable information can be obtained from the evidence before the Select Committee in 1906 as to *forms* of

¹ P. 227.

² *Loc. cit.*, p. 1, and Q. 73. This was confirmed by Sir Henry Primrose on the 1906 Committee, Q. 80.

³ *Loc. cit.*, p. 20.

⁴ Q. 118.

⁵ Q. 141.

⁶ Qs. 1,099, etc.

avoidance and fraud, but practically nothing was added to our statistical knowledge. Various opinions were expressed as to the probable extent of evasion, some holding that it was very small and even balanced by tax overcharges, and others that it was considerable, Sir L. G. Chiozza Money adhering to his estimate of £70,000,000. It was clear that no conclusion could rightly be drawn from the statistics to the effect that the increases in the rate had led to increased evasion in a fraudulent sense, or to increased avoidance, by companies reconstituting themselves as foreign concerns. There was some attempt to show that a drop in the profits from British and foreign securities under Sch. C followed the increased rates, but it was not established as cause and effect; for Sch. C is taxed by registration, and not left to the taxpayer to "declare." Some interesting evidence about the methods of foreign manufacturers in invoicing goods at what was really a selling price was taken *in camerâ*.¹ Altogether it may be stated that, although the whole question of methods of evasion is fully discussed in these reports, the only solid basis for an estimate is the official statement as to the range of income over which evasion is possible.

Under Sch. A the scope for fraud is small, and for evasion less. Property is physically in view; there is the check by the poor rate, and deliberate under-statements of rent are risky and must be negligible in relation to the whole tax. Improper claims to abatement or exemption may be possible to a slight extent, but there is little incentive to conceal the existence of mortgage interest. Under Sch. B, though there is considerable loss, it is entirely due to the definite *legal* assumptions of the system.² Under Sch. C there is hardly any scope, though some persons receiving small untaxed dividends may fail to return them for assessment under Sch. D. Under Sch. E, apart from any abatements improperly claimed by persons who do not fully declare their taxed income, the impersonal and generally disinterested return by the employers is a safeguard against extensive evasion. The allocation of "profits" to Sch. E in the form of remunera-

¹ *Vide* index to Report, p. 282, where it is summarised.

² To be obviated in future—Finance Act, 1915.

tion in order to secure the "earned rate" can hardly be characterised as evasion, but a few cases of "conventional" salaries in small private concerns paid to dependants, etc. may exist. The total scope in all the foregoing is very small, indeed, and we are left with Sch. D as the main field for evasion. In one section of Sch. D (the part taxed at the source by public companies, local authorities, and banks) it may be said that the field is very limited, and even over the more important part of private industry it is the practice for the larger firms to render regularly their certified accounts to the authorities for the more accurate determination of liability—a custom that has become of late even more extensive than it was at the time of the 1906 Report. The present total assessment for persons, firms and employees is £226,200,000 (1913-14). The first section to be considered is that of wage-earners and salaried persons (£31,000,000). The legal powers taken in 1907 to compel returns by employers have now reduced the scope here to unimportant dimensions. The second section may be regarded as the individual return, where evasion was possible in several ways:—(1) Neglect by private residents to make returns by ignoring applications, and thus leaving the existence of items of untaxed income unrevealed. By the Finance Act, 1907, it was made compulsory to return forms, even though the liability was *nil*, so that loss of duty in this respect passes from the category of "evasion" to "fraud," as a definite statement must now be made. (2) Neglect by traders and others to make returns, leaving the assessment to be made by the Commissioners. This favourite device of former times is now far less available because in the case of all incomes under £2,501 the omission to complete the forms deprives the taxpayer of the lower rates, and a charge upon an estimated assessment at the full rate without any abatement or allowances forms in itself a heavy automatic penalty. Loss of duty is again transferred from "evasion" to "fraud." (3) Leaving income to pile up abroad has for a long time been recognised as a legal avoidance of taxation,¹ and in the opinion of some there is no equitable right to tax "beyond the jurisdiction" income

¹ *E.g.*, Giffen, R. C. on Financial Relations, 1896, Q. 8, 128.

that has never enjoyed the protection of the Government.¹ If taxation proceeded upon the benefit principle, this view would have some measure of justification, although even then it would be doubtful in the case of colonial income ; but our system is frankly facultative, and it is idle to pretend that faculty proceeding on progressive lines is unaffected by the existence of unremitted income accumulating abroad, so that on this ground alone such legal avoidance lacks justification in pure theory. The Finance Act, 1914, shifted the basis of liability from the remittances to the profits arising abroad, whether remitted or not.² (4) The liability of foreigners and foreign companies carrying on business in this country is a possible source of loss, owing to the difficulty, where there is a distinct trading entirely outside this country, of fixing the cost price of the goods imported. It may fairly be said to vary in degree from that evasion in which a taxpayer gives himself the " benefit of the doubt " by arranging prices so that the weight of profit falls conveniently in the most advantageous position,³ to deliberate fraud, in which the invoice prices are so high that no profit could possibly be assigned to the British trading.⁴ Inter-State taxation in the United States and local taxation in Germany furnish examples of difficulties of this character.

Sir L. G. Chiozza Money's estimate of £70,000,000 in " Riches and Poverty " was referred to by him as following " upon the opinions of a very large number of men who have considered this subject for a very considerable number of years, and one naturally attaches weight to those opinions ; and also it follows upon one's own knowledge of facts." ⁵

¹ Giffen, R. C. on Financial Relations, 1896, Q. 8,142.

² The estimate of increased duty was £1,000,000 in a full year, from which the interest may be estimated at £20,000,000.

³ *Vide* my article on " Irish Fiscal Autonomy and Direct Taxes," *Economic Journal*, March, 1912.

⁴ *Vide* the action against directors of the Stolz Electrophone, Ltd., reported in *The Times*, February, 1915, in which an ex-official gave evidence of such practice. For a discussion of the possible cases and the legality or equity of evasion see " Can Income Tax be Evaded ? " (*Economist*, 1910, p. 697). Also the full discussions on the Finance Bill, November, 1915.

⁵ S. C. on Income Tax, 1906, Q. 789.

H. Morgan Browne added £75,000,000.¹ Ireson concluded that only about £70,000,000 is understated, and therefore put the total at £35,000,000 as a maximum.² This is the estimate adopted by Dr. Bowley before the D. C. on Income Tax, 1906. It is commonly stated that higher rates increase evasion, but W. H. Price, testing the Sch. D assessments by comparison with bank clearances, etc., considered that the assessment held its own under the strain in 1900.³

Speaking for a period about the year 1913, if we take the unremitted income as about £20,000,000, and deal separately with real *evasion* after allowance for all subsequent recoveries and additional assessments, an estimate may be arrived at by taking the respective sections and applying to each what experience has suggested as a maximum percentage of loss, providing room for plenty of those glaring instances which, quite apart from natural tendencies to boastfulness often found in commercial life, afford a basis for extravagant statements by those who lose sight of the vast mass of ordinary liability accurately determined and faithfully met. Percentages have been adopted as assigned by various accountants and others of experience, and, when both the *proportion* of cases affected and the degree to which those cases are affected have been considered, in no instance has the total estimate exceeded £17,000,000 in the gross assessment, and it has often been much less, although surprise has been expressed at the aggregate result.

There are various misconceptions upon the subject. Among them may be mentioned the popular notion that many liable workmen on weekly wages escape. In the first place, the number who *sustain* an average of over £3 per week continuously over three years, without a break, is not large. At any given time there may be a considerable number above the margin, but they are not the same cases continuously. Secondly, machinery was provided in 1907 as adequate to secure the greater part of the real liability. Thirdly, with the children's allowances, abatements, etc., the loss in *duty* is very small indeed.

¹ *New Liberal Review*, April, 1902.

² "The People's Progress," p. 50.

³ *Quarterly Journal of Economics*, February, 1901.

Evasion in Earlier Years.

The S. C. on the Income Tax, 1851-2, heard much evidence upon the subject of evasion, the greater part of the first volume being devoted to official accounts of assessment procedure and close examination of fraudulent methods. But there is nothing of statistical value, and no material upon which a general estimate can be based. Although it was stated that Schs. A and C were obtained to the "uttermost farthing," it was the cause of gravest concern that fraudulent exemption claims were so numerous and so impossible to stop. Apart from those who by fraud or avoidance had returned their incomes just below £150, there were many who claimed upon property in one district without disclosing income in other places. Just as the £50 exemption limit was introduced in the old income tax to catch those who had formerly returned a little below £60 to escape the duty, so in 1852 it was proposed to reduce the limit to £100 in order to take advantage of the returns of all those who had unhesitatingly admitted to £149 when that sum was exempt! Somewhat the same result might be looked for from the lowering of the super-tax level from £5,000 to £3,000, where the former returns, made with generous accuracy because they were not liable to duty, become of effective value. The secret of all the trouble in these old exemption claims was the absence of abatements—£149 incomes paid nothing, and £151 incomes sprang into full liability on over £4 duty. Where the limit of exemption is also the measure of abatement, the entry into liability is gradual, and the motive for that class of fraud is absent.¹ Attention was devoted in 1851-2 to evasion under Sch. D, and it also appeared that very lenient assessments were the rule in 1808-10. The evidence was detailed, but affords no statistical assistance. Evidence before the S. C. on Inland Revenue and Customs, 1862-3, indicated that evasion under Sch. D was diminishing at that date.

The Commissioners of Inland Revenue, in their early

¹ *Vide* particularly Qs. 2,396, 2,397, etc., 2,408; evasion under Sch. B by fictitious partnerships, Q. 2,411.

reports, were in the habit of giving details of cases of fraud that had been discovered, particularly in "compensation" cases,"¹ and drawing the obvious moral. "We find that in general those who intend to commit such frauds on a large scale avoid making any returns . . . they pay duty with an easy conscience (having made no false statement) upon an amount £20,000 or £30,000 below their real income."² Numerous compensation claims in connection with an extensive demolition of houses in a certain district by the Metropolitan Board of Works gave occasion for an official estimate of evasion under Sch. D (12th Report, p. 22). It is the only statement of that character ever published, and it may therefore well be quoted in full :—

" Estimate of Total Amount of Fraud under Sch. D.

"The total number of the claims for compensation on the occasion above referred to, which were examined by our officers, was 200, and in 80 of these surcharges were made and sustained on appeal, that is to say, in 40 per cent. of the cases inquired into the Revenue had been defrauded of its dues. The aggregate of the taxable incomes returned by the parties themselves was £73,642, and the amount ultimately found to be correct was £171,370, being in excess of the returns by £97,728, or about 130 per cent. Such a statement as this will naturally suggest the question, What must be the amount of loss to the Revenue in the assessments to Sch. D throughout the kingdom?—and we think that the information furnished by this instance of compensation on a large scale does really give us the means of forming a rough, but approximate, estimate of the deficiency in our returns. Of course if this were a solitary instance of the kind it would be eminently illogical to build any argument upon it, but your lordships are aware that, as an invariable consequence of claims for compensation, where the actual profits of trades or professions are divulged, we find the income tax returns largely deficient.

¹ No attention was drawn to the fraudulent practice of overstating profits for compensation purposes (or even of returning higher profits than were being made in order to put in tax receipts as evidence), which no doubt sometimes existed, and which would *pro tanto* have discounted the inferences as to real evasion of income tax; for payment of excessive income tax was a minor matter where a chance of compensation existed.

² 8th Report, p. 29. Other interesting references are—9th Report, p. 24, discussing the American income tax, and 11th Report, p. 25, on the probable deterrent effect of exposure.

And, moreover, this is not confined to any particular class, trade, or profession ; we find the same practice prevailing among legal practitioners, when, on the abolition of their exclusive privileges, in some particular court they have to make good their claims to your lordships ; we find it on all occasions of large demolition of shops and warehouses for public purposes, in every variety of trade, and we find it in great public companies and in firms whose business is almost a national concern, from its magnitude and world-wide reputation ; we therefore think that we may venture to generalise upon the facts which the most recent occasion of compensation cases has furnished.

“ Those facts are, that 40 per cent. of the persons assessed had understated their incomes to such an extent that a true return would give an addition of 130 per cent. Let us see what additional revenue Sch. D would yield if the same proportion of deficiency prevails throughout the assessments. Taking the accounts of the year 1864-5 as the most convenient for our purpose, we find that the total number of persons assessed under D was 350,512 ; 40 per cent. of which is 140,204. This then is the number of deficient returns or assessments. In order to estimate the amount of duty suppressed we must first arrive at the actual assessments in those 140,204 cases, and we cannot do this in a fairer manner than by taking them at the average assessment of the whole kingdom, that is, at 40 per cent. of £110,105,766, which was the sum charged under Sch. D in 1864-5.

“ Thus we may assume £44,042,306 as the income returned in assessment, £101,297,303 (130 per cent. more), the income which should have been returned, and the difference, £57,254,997, the sum on which duty was evaded. At the present rate of 6*d.* in the £ this would add to the revenue £1,431,374, about the produce of a penny on the whole income tax.

“ Deficient Returns by Public Companies.

“ We see no reason to distrust this estimate, at all events no reason to consider that it errs on the side of excess rather than otherwise. We have already stated that we have found every class of contributors to Sch. D liable to the same shortcomings in their returns, and, lest it should be supposed that at least we ought to have excepted public companies and large joint-stock associations, we beg leave to call attention to the following extract from a long list of defective returns by such co-partnership concerns, some of which have been noticed in previous reports.

“ We are far from saying that in all the cases in which income

tax returns are deficient there has been a wilful attempt to defraud the Revenue. In many instances no doubt the errors which are committed are unintentional, but what we are chiefly concerned with is the effect on the public income, which is the same whatever may be the cause of the deficiency; and the real significance of the subtraction of such a large sum as we have supposed, or of anything approaching that sum, is best brought home to us when we remember that 'the exemption of one man means the extra taxation of another,'¹ and that if Sch. D gave its due quota to the Revenue we might be relieved of many an unpleasant impost.

"It must also be borne in mind that on lands and houses, on dividends, and on salaries and pensions of public officers, the tax is levied nearly to the uttermost farthing which is due."

It will be observed that this estimate is equivalent to saying that Sch. D should be 52 per cent. more, and since Sch. D was then much smaller relatively, it is also equal to 16½ per cent. upon the whole income tax.

Baxter, writing just before this report, estimated that the loss by evasion under Sch. D was one-sixth in England and Wales—"a very moderate estimate"—and one-tenth in Scotland and Ireland, or about £18,000,000 deficiency in all.²

After comparing the total gross assessments, £396,000,000 in 1864-5 with £571,000,000 in 1874-5, and the net assessments charged, £349,000,000 and £498,000,000 respectively, Giffen remarks that the latter, if the "exemptions" had remained the same, would in 1874-5 have exceeded £500,000,000; "and altogether, allowing as well for the incomes under Sch. D which escape assessment through incomplete returns, we can hardly err in placing the net incomes of the income tax paying classes at somewhere about £600,000,000 sterling." After deducting from the gross £571,000,000 the exemptions and various deductions required to reach the "net incomes of the income tax paying classes," the amount assigned to leakage is about £65,000,000 (upon a gross assessment of £174,000,000 under Sch. D, or over 30 per cent.) ("Foreign Competition," *Economic Studies*, I., p. 425).

In 1888 Soetbeer³ put the evasion at £70,000,000 under Sch. D, and although the aggregate was rapidly increasing,

¹ Mr. Gladstone's financial statement in 1853.

² "National Income," pp. 33, 54, 58, 96.

³ *S. J.*, 1888,

this remained a familiar estimate. Giffen, in his "Growth of Capital," put it at £36,000,000, or 20 per cent. excluding foreign income.

It must not be forgotten that the local commissioners have always been legally responsible for the adequacy of assessments, and the development of any central responsibility for an administration which would minimise evasion has been gradual and tentative. The frank utterance of the sixties which has been quoted above was accompanied by no apology for administrative shortcomings. If there has been any change in the spirit in which the matter is approached at the present day it can never be vitally different or radically complete, while the legal position is maintained.

Some part of the loss was always subsequently recovered as "unassessed duty." If we include the income unremitted from abroad, it is quite possible that the estimates up to 1885 were not greatly beyond the true figure. After that time the loss by evasion was sensibly less, and it was greatly diminished after 1900.

The Super-tax.

It is unnecessary to recapitulate here the interesting statistical estimates made before the super-tax was an accomplished fact, for the full details may be found in the evidence given to the Income Tax Committee in 1906. The use of House Duty statistics, Estate Duty statistics, abatements, the classification of assessments, and Pareto's law may be found fully illustrated there, with some of the chief difficulties in such inquiries. Contemporary journalism and literature furnished little of value compared with that volume, and need not be referred to in detail.¹

The recent publication of the super-tax statistics has for the first time rendered possible a direct application of Pareto's formula to the distribution of the higher incomes of the

¹ *E.g.*, Alden, "Democratic England," p. 7 (income estimated at £90,000,000 in England), *Socialist Review*, March, 1909; J. A. Hobson, "A New Era of Taxation," *International Review*, February, 1909; Hallett Fry, *Financial Review of Reviews*, March, 1909; J. Keir Hardie, M.P., "A Labour Budget," *Financial Review of Reviews*, April, 1906.

United Kingdom. Not for 112 years had any official statement appeared giving the total numbers of incomes of various amounts. Pitt's income tax of 1799 required returns from all individuals showing their total incomes from all sources, and the classification of the result, for 1801, for Great Britain is shown in Appendix IV.¹

But the attempt to tax income in one sum upon the total amount was given up in favour of the present piecemeal schedule system, in which "taxation at the source" was the cardinal feature, and as an immediate result the yield of the tax was doubled. The value of the table given in Appendix IV. is therefore considerably lessened, as it is not so likely that the *number* of incomes should be increased as that the *amounts* should be greatly altered, with a corresponding redistribution upwards. But if we assume the under-declaration of income to have been proportionate throughout, we have some index to the actual *distribution* at that time. The breaking up of the income tax into schedules has meant that no one has been required to give statements of total income unless for the purpose of claiming some abatement or relief, and the number of people not so claiming has, until recent times, always introduced an element of doubt into the statistics. Moreover, the available figures of abatements have given information for a very limited range. Even now, with abatements on incomes up to £700, and with lower rates contingent upon proof of total income not exceeding £3,000, if statistics of all claims made were available they would not be complete, for unearned incomes from £700 to £3,000 are not "declared" in any way. The requirements of the super-tax, however, include returns of every income over £5,000² for taxation globally, in one sum, and it is the details of these returns and assessments which have now been classified in the official reports, showing the particulars in eleven stages.

In 1906, when the Select Committee inquired into the possibility of graduating the income tax, Dr. Bowley made

¹ The following paragraphs are reprinted from the Journal of the Royal Statistical Society, January, 1914,—“A New Illustration of Pareto's Law,”—by the kind permission of the editors.

² Now £3,000.

Super-tax Statistics, 1911-12 (as first published).			Dr. Bowley's "Unearned Income" Estimates.		
Groups.	Total Incomes assessed.	Number of Persons.	Groups.	Total Incomes assessed.	Number of Persons.
Not exceeding £10,000 . . .	£ 50,850,830	7,411	£ { 5,000 to 6,000 6,000 to 10,000	£ 15,000,000 37,000,000	2,876 4,852 } 7,728
Exceeding—					
£10,000, not exceeding £15,000	24,383,880	2,029	{ 10,000 to 25,000 25,000 to 50,000 Over 50,000 ..	46,000,000	3,093
£15,000 "	13,550,046	787			
£20,000 "	9,697,248	3,254			
£25,000 "	11,099,384	382			
£35,000 "	7,303,011	* say, 186	{ 25,000 to 50,000 Over 50,000 ..	23,000,000	659
£45,000 "	5,269,881	625			
£55,000 "	3,353,446	56			
£65,000 "	2,575,501	37			
£75,000 "	4,733,982	264	{ Over 50,000 ..	50,000,000	350
£100,000 ..	12,176,735	66			
Total	144,993,944	11,554	—	171,000,000	11,830

* It is necessary to split the class £45,000 to £55,000 to get groups comparable with Dr. Bowley's classes, and these two aggregates are suggested for the comparison.

use of Pareto's law applied to the existing data, in order to estimate the numbers and amounts of income over £5,000. He made a skilful combination of hypothetical incomes from the Estate Duty capital for the upper range, abatements for the lower range, with House Duty gradation for the body, to get an index or line of distribution, which when applied to the known totals of income assessed gave the amounts at the various stages. He also utilised the classification of assessments under Sch. D—a most difficult table to handle, and a very different thing from a classification of incomes. Its chief difficulties are in the higher classes, where many assessments include large sums of interest paid (and therefore not "income" to the person assessed), while the assumption that there are two and a half partners on the average to each firm does not hold actually in the large cases. Dr. Bowley had, however, to relate his figures to the total taxed incomes, and therefore felt it necessary to distribute £200,000,000, which was assigned to incomes above £5,000. He obtained a Pareto index of 1.53, and his distribution of figures upon the estate duty basis, with a hypothetical "multiplier" of 32, and a rate of interest of 5.6 per cent., is given side by side with the super-tax statistics in the table on p. 331. His additional "earned" incomes from the Sch. D tables referred to above are not so finely graded and have been omitted—the figures are given only for a comparison of the distribution and *not* of the total income dealt with. The estimates of the total income over £5,000 were £200,000,000 (Dr. Bowley), £250,000,000 (Sir L. G. Chiozza Money), £148,000,000 (Sir T. A. Coghlan), and £121,000,000 (Sir Henry Primrose).¹

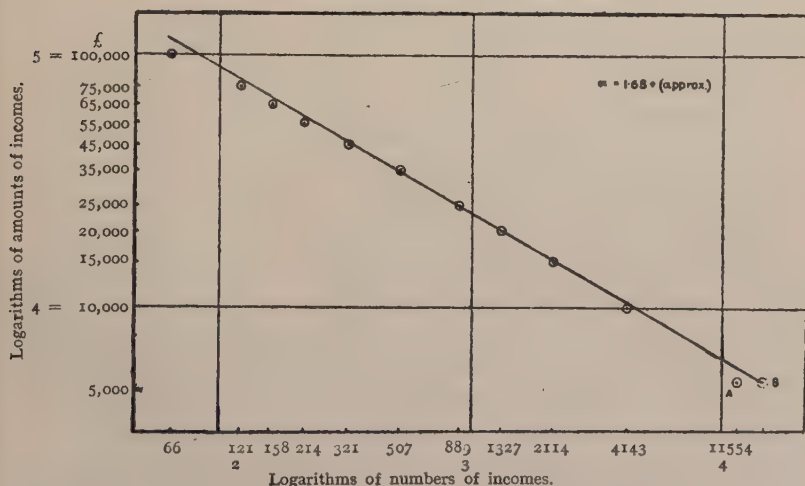
The general agreement is very striking, having regard to the nature of the data upon which the estimate had to be made, and it should be noted that the official figures were avowedly not yet complete.² The official figures, moreover, are exclusive of life insurance, since premiums have been allowed as a deduction in arriving at income for super-tax purposes.

¹ Report by the Select Committee, 1906, Appendix, p. 261.

² *Vide* p. 338.

The accompanying graph shows the details of the super-tax plotted logarithmically, on which method Pareto's formula ¹ gives a straight line, and it will be observed how remarkably the actual distribution agrees with his law. Only the two highest stages (and the lowest) are to any material extent away from the line, and the highest points merely exhibit a feature that is common to all applications of the law—a falling away in numbers of the highest incomes. This feature is one that appears quite natural upon a consideration of the points involved, viz., that as one approaches

GRAPH VIII.



impossibly high incomes the numbers must fall away. Similarly at the lowest end, strict applications of Pareto's law fail, otherwise there would be an enormous population far below the subsistence level. So, remembering that all variations in numbers of incomes for the same amount cause only *horizontal* movement of the points, in the former case we see the points move away from the line to the left (*i.e.*, fewer in numbers, measured along the base), whereas in the latter

¹ Where x = any given income, and y = the number of persons with incomes of x or more, then $x^a y = b$, a and b being constants. It is also commonly expressed : $\log N = \log A - a \log x$, where N is the number of persons with incomes of more than $\pounds x$ (*i.e.*, $N = y$ of the first formula and $A = b$ of the first formula).

case of low incomes near the subsistence level, they are found to move away from the line to the right (*i.e.*, more in numbers). Pareto's line, adapted to cover the whole range of incomes, is therefore not straight, but like a reversed and very elongated S. In the present instance, the incomes below £5,000 are still lacking, so that the second feature does not appear. We may obtain the index or slope of the line between any two points. In this instance the slopes corresponding with the maximum number of points are 1.66 to 1.68, and several cases are higher. These are very high figures, and certainly would not apply to the whole lower range of incomes from £700 to £5,000. The index found by Dr. Bowley for the higher incomes was 1.53, and it is not unlikely that the whole of this range of incomes would lie to the left of—*i.e.*, have a higher index than—any Pareto line which was true for the main range of incomes.

The feature upon this graph most calling for remark is the position of the lowest point (incomes over £5,000) at A instead of the position B, which would accord with the formula. There are three important considerations bearing upon this :—

(1) It is natural to assume that the highest and most discernible incomes have been included, and that the incomes still to be declared and brought in belong to the lowest or least discernible class. It is at point A that nearly all new cases may be expected to come in.

(2) The whole range of incomes excludes payments for life insurance. So far from the deduction affecting the incomes which are just at the limits of the classes proportionately throughout, and thus making no difference to the index, it is probable that such insurance is relatively of far greater importance for incomes about £5,000 than for those for higher amounts. The number excluded from the class at its lowest limit would thus be greater than the compensation received from the class above, and a deficiency compared with the formula is a natural result.¹

¹ *Effect of Life Insurance Allowances on Super-tax.*—1909-10: 150 was the approximate number of persons whose total incomes were brought below £5,000; duty payable if the deduction for insurance

(3) It is highly probable, as indicated above, that the true index for incomes, say from £1,000 to £10,000, is appreciably less than 1.66. The line should therefore be steeper at this point, and would cross the £5,000 limit at a point nearer to A than B is situated. The index obtaining between £20,000 and £10,000 ($=1.66$) gave about 1,700 more incomes for A, but 1.60 gave 1,150 more, compared with the 1911 figures first published.¹ (It is interesting to note that the index for the range £5,000 to £2,000 in 1801 was 1.66.) Of course this was only a computation after postulating the number of the classes above as correct, and was all that was needed to make the series *consistent*. It had no bearing upon the actual *correctness* of the whole series, which could only be established by relating the total to the whole amount assessed to income tax in a series which would be consistent in its other parts also; and such a reconciliation must necessarily be preceded by a discussion of the extent to which "income" is identical in scope and connotation for income tax and super-tax purposes. A complete agreement for this part alone with Pareto's law is quite compatible with under-declaration throughout the whole of the part dealt with for super-tax.

The law is therefore illustrated without any reference to the statistical problem of the distribution of the total income assessed to income tax.

Dr. Bowley dealt with this problem in the light of these recent statistics in the *Quarterly Journal of Economics*.² He attempted the distribution of a total income of £886,000,000, less £50,000,000 estimated as payable to insurance companies, societies, or foreigners, by taking the abatements as evidence of the aggregated lower incomes, and the super-tax as evidence of the incomes over £5,000, and dealing with the £414,000,000 for the middle range. This £414,000,000

were entirely inadmissible, £8,700 (or £6,600 if the allowances were made as a deduction from duty payable). 1910-11: 200 cases similarly omitted. These figures were based on a 10 per cent. sample investigation (reply to question by Mr. Locker-Lampson, Hansard, 27th July, 1914).

¹ Reference to the later figures on p. 338 shows that this estimate has been closely verified. A further 700 cases have been found, and these with the 200 "insurance" cases almost fill the gap.

² February, 1914.

covered a kind of unaccountable excess in the middle range, for the lower range, continued upwards, would have demanded £142,000,000 only, and the upper range, continued downwards, would have required £304,000,000. The difficulty would be removed if the sums assessed in the super-tax range were considerably increased, or if it could be shown that the number of abatements claimed is quite deficient. There was presumptive evidence for aggregation of incomes in the intermediate region, and the super-tax statistics had tended to raise new problems rather than solve old ones. An interesting diagram showed that the super-tax classes and the abatement classes gave points lying, not at the extremes of one Pareto line, but at the extremes of two lines which were parallel, and the suggestion is that at some intermediate points, if the figures were known, a "cross-over" might be found. These intermediate points would mark the region where incomes predominantly earned would pass to incomes predominantly unearned, and, although the Pareto law may apply to either kind of income separately, it would appear that the application is not identical. Dr. Bowley's analysis is very suggestive, but it may be remarked that two possible lines of explanation or reconciliation are open: (1) Unless we are certain that the laws or rules governing the computation of income belonging to individuals in the mass are identical with those applying to the computation of incomes belonging to individuals, it may be that the sum of the parts can *never* equal the whole. (2) It may be injudicious to draw rigid inferences from a new system of "global" taxation, which may have weaknesses inherent in its nature or attendant upon its infancy.

With regard to (1), it is beyond question that the rules for computing individual total income are more lenient than those applicable to general liability, in particular relation to dividends. A partner in a firm must count as income the fractional share of the full liability to which he may be theoretically entitled, even though some of it remains in the business and is not "enjoyed," but a *shareholder* in similar circumstances may count as income for super-tax only the declared "dividends," and the compulsory or collective

investment of a portion of the income which, though not passing into his hands and out again, is none the less his, and strengthens the capital value of his shares, does not come into his statement of total income for purposes of abatement, earned income relief claims, or for super-tax. Particular reference is here made to the remarks in Chapter VI. on "Reserves," which may affect the super-tax statistics to a marked extent. Similarly, an adequate allowance must be made for the effect of life insurance premiums in the super-tax assessments.

Upon the second point referred to, the strong presumption raised by the application of Pareto's law shown above should be considered in relation to all the evidence upon the effect of an initial tax limit with an appreciable immediate burden,¹ and also to the general limitations of systems of global taxation which time alone can modify.

After making the necessary allowances for the "excused" income under (1) and for any suppressions under (2), the total sum will approximate more nearly to the £200,000,000 which may be regarded as the minimum sum assignable to the range above £5,000 upon any satisfactory theoretic distribution of the total sum assessed to income tax. The new super-tax conditions will shortly afford further information, giving the incomes above £3,000, and this elusive problem will be still further narrowed down.²

The main statistics of super-tax are as follows:—

Year.	Total Income assessed.	Number of Persons Charged.
1909-10 . .	139,664,000	11,348
1910-11 . .	142,890,000	11,682
1911-12 . .	151,950,000	12,399
1912-13* . .	158,800,000	13,000
1913-14* . .	170,150,000	13,850
1914-15* . .	230,850,000	28,800 ²

* Estimated assessments not completed at date of 58th Report.

¹ *Vide* S. C. on Income Tax, 1851-2; and D. C. on Income Tax, 1906, Qs. 74-85, 963-1,069, 1,139-1,151.

² It was stated by the Chancellor of the Exchequer in his Budget speech, 4th May, 1915, that the number of super-tax payers is now 26,000, 12,000 being already added by the lower limit, and that number would probably be increased to 15,000.

TABLE G5.—*Super-tax Statistics.*

Class.	Year 1911-12.		Year 1912-13.		Year 1913-14.	
	Total Incomes assessed (thousands).	Number of Persons.	Total Incomes assessed (thousands).	Number of Persons.	Total Incomes assessed (thousands).	Number of Persons.
Exceeding						
£5,000	..	8,143	£55,207	8,087	£57,713	8,388
£10,000	..	2,090	26,415	2,186	28,224	2,339
£15,000	..	813	14,609	847	16,572	965
£20,000	..	442	10,415	470	11,070	496
£25,000	..	393	11,785	401	13,260	454
£35,000	..	191	7,634	196	8,628	217
£45,000	..	109	5,485	109	6,265	126
£55,000	..	57	3,521	60	3,803	64
£65,000	..	36	2,628	38	2,997	43
£75,000	..	57	5,423	62	5,621	64
£100,000	..	68	13,062	75	13,435	75
.. ..	..					
Total	£151,950	12,399	£156,184	12,531	£167,589	13,231

PART II.

SOME APPLICATIONS OF OFFICIAL STATISTICS.

CHAPTER IX.

THE VALUE OF LAND: USE OF SCHEDULE A STATISTICS.

ANNUAL VALUE OF AGRICULTURAL LAND : PROSPERITY OF AGRICULTURE.

THE statistics for Sch. A classified under "Lands" are so closely related to the true annual value of agricultural land that they have been continuously used for the purpose of (a) showing the income derivable from this source in comparison with that from other sources, and (b) exhibiting the changes in value from time to time.

Many of the points arising in this application have already been dealt with in describing the detailed official statistics. The extent to which the movement of assessments may lag behind true values during a rise has been discussed in Chapter I. It has been seen that the truest "fit" may be looked for in the re-assessment years, and that the variations in the intervening years have little real significance. In a similar way the true extent of a fall in values may be disguised, even though occupiers and owners of land are able to secure reductions in the assessments in *the years in which they occur*, because reductions in rent are often effected as

permanent only after a series of temporary reductions or remissions have been granted for a number of years, and such remissions are not reflected in the gross assessments,¹ while in the case of lands occupied by the owner the case for reduction must be very strong before there is any chance of successful appeal. Where the owner is exempt from income tax both the valuation for poor rate and the tax assessment may long remain over the true value—the latter because there is no incentive to reduction, and the former because the ratings are “pooled” over a limited area by owners who are all in like case, and whose rate will rise if ratings are reduced.² Again, mortgages have an influence sometimes in maintaining assessments, since the sum charged must be adequate to secure tax on the mortgage interest. These and other points bearing upon the relation between rental value and assessment are touched upon in the evidence before the R. C. on Agricultural Depression.³ A severe depression in agricultural land values may be masked by good accommodation land values when separate counties like Essex are under consideration, while assessments on ornamental lands, woods, game, etc., serve to maintain apparent values.

The general superiority of the Sch. A assessments over the poor rate valuations has been discussed already in Chapter I. It is of course a matter of importance in some investigations to know what land is actually included in the statistics. The whole question is well treated by R. J. Thompson in the *Statistical Journal*, 1907 (“An Inquiry into the Rent of Agricultural Land in England and Wales during the Nineteenth Century”):—

“The only official or other statements which afford any means of testing the accuracy of the two preceding sets of figures are

¹ Evidence before R. C. on Agricultural Depression, Qs. 63,368, 63,461. Lord Milner said the difference might be 3 or 4 per cent. : Qs. 63,938, 64,016.

² For a discussion of the various influences at work in maintaining ratings at an excessive figure, see my article on “Rating Reform,” *Economic Journal*, 1910.

³ *Vide* evidence of Lord Milner, Qs. 63,953, 63,960, 64,000, 64,015, and Final Report, p. 23.

the Inland Revenue returns of the gross annual value of the property assessed for income tax (Sch. A) under the heading 'Lands, including Tithes commuted under the Tithe Commutation Acts.'

"The income tax figures have been relied upon by various writers and Royal Commissions as affording an indication of the rise and fall of rents, but they are subject to several qualifications, which it is well to bear in mind. In the first place, the figures refer to 'lands,' whether cultivated or uncultivated, including ornamental grounds, gardens attached to houses when exceeding one acre in extent, tithe rentcharge, and farmhouses and farm buildings. Secondly, the amount returned is to be the gross rent payable under the lease or agreement, and not the rent paid after deducting any temporary abatement or remission of rent allowed by the landlord. Thirdly, the valuation is only made every five years (formerly every three years), so that changes between each valuation are only made on appeal to the district commissioners. Fourthly, the valuation of 'lands' built on or appropriated to other uses is transferred to 'houses.'

"It will be seen that the inclusion of ornamental gardens and grounds, and the non-deduction of abatements, would tend to keep the total valuation up; the triennial or quinquennial valuation tends to refer the bulk of the changes to years not necessarily those in which they were made, while the transfer of building land produces, as far as it operates, an artificial decline in the total, which is not attributable to any fall in 'rents.' It may be noted also that a rise in 1864-5 was stated to be due to improved administrative control."¹

He goes on to use the figures in the following manner :—

"For the purpose of comparing these three sets of figures with the prices of agricultural produce, I have taken Mr. Sauerbeck's index number for the articles included by him under the headings 'Animal and Vegetable Food' (groups I. and II.), viz., wheat, flour, barley, oats, maize, potatoes, and rice; beef, mutton, pork, bacon, and butter. This list includes rice, which does not affect the farmer and omits wool, which does, but broadly it may be accepted as a fair indication of the course of agricultural prices. In the following table these four sets of figures are expressed as percentages. For the purpose of comparison with Sauerbeck's index number, the period 1867-77 has been taken as a base, except in the case of column 2, where the year 1872 has been chosen as the mean of 1867-77.

¹ Question of validity discussed in Report of R. C. on Land in Wales, p. 361. Final Report of R. C. on Agriculture, 1896, also deals with it, pp. 26, *re* uncommuted tithe.

"TABLE VI.—*Comparison of the Figures of Rent, Income Tax Returns, and Prices expressed as Percentages (abridged and given in five-year intervals only).*

Year.	Rent of 120,000 Acres, 1867-77 = 100.	Rent of 400,000 Acres, 1872 = 100.	Income Tax Returns, 1867-77 = 100.	Sauerbeck's Index Number, 1867-77 = 100.
1846	83	—	84	93½
1850	82	—	86	70½
1855	84	—	84	103½
1860	92	—	88	95
1865	93	—	95	90½
1870	96	—	100	93
1875	102	102	103	100½
1880	86	92	105	95
1885	72	84	94	78
1890	78	81	84	73½
1895	65	75	80	66
1900	69	70	75	73½."

Many writers have quoted the work of this Royal Commission upon the use of Sch. A assessments to show changes in agricultural rents. Among them may be mentioned :—

Mayo-Smith : "Statistics and Economics," p. 335, who refers to decadal changes 1843 to 1894.

Curtler : "History of English Agriculture," p. 30.

Others who quote the Sch. A assessments as sufficient evidence of value, or of change of value, are :—

Sir L. Chiozza Money : "Things that Matter," p. 283, referring to the exaggerated notions frequently held as to the value of land.

W. H. Mallock : "Property and Progress," p. 216, referring the bulk of the value to small owners :—

"The gross income of the *United Kingdom* assessed under Sch. A for land in 1851 was £47,800,000. The gross incomes of the owners in England and Scotland, of under 50 acres, is at the present moment more than £51,000,000." (In 1851 *Ireland* was not included, and it may be remarked that the value of *all* land (irrespective of acreage) in England and Scotland was £45,000,000 only at the date of the quotation.)

Dawson : "The Unearned Increment," p. 5.

Porter : " Progress of the Nation," p. 203.

Lord Eversley : " Decline in Number of Agricultural Labourers in Great Britain," *S. J.*, 1907, p. 279 ; also " Estimate of Agricultural Losses in United Kingdom in last Thirty Years," *S. J.*, 1905, p. 66.

Value of Land in Counties : Value of Land per Acre.¹

The official paper, C. 8300, in connection with the R. C. on Agriculture gave a statement comparing the rateable value in each union as in 1870 and 1894, and also the gross value of " lands " under Sch. A in each county in England and Wales in 1879 and 1894, with diagram maps of great interest. The income tax map was regarded by the Commissioners as giving a more accurate measure of the extent and severity of the depression. Among the explanatory notes there is one to which reference has not been made in the text with regard to " lands." " In Wales the assessments in former years were not approximated as closely to the rentals as in England, the result being that the fall has not been apparently so pronounced."

The statistics of " lands " for separate counties have been given from time to time,² and have furnished material for ascertaining the average value per acre in different localities and at different periods. Lord Eversley has made county comparisons of value per acre, 1871, 1881, and 1901, at some length (*S. J.*, 1907, pp. 294, etc.).

¹ *Early Estimates of Value* :—

—	Value (million £).	Value per Acre.
A. Young . .	16 (England)	9s. 11d., against 6d. four centuries before.
Mulhall :—		
1750 . .	16.6	
1780 . .	23.4	
1814 . .	49.0	

² *Vide* Chapter I.

Other writers who have referred to this question are :—

Professor Nicholson : " Rates and Taxes as affecting Agriculture," p. 77, refers to the increase from 27s. to 30s. from 1850-78, as given by Caird.

F. W. Hirst : " Porter's Progress of the Nation," p. 199, where R. J. Thompson's results are accepted (1851-5 26s. 9d., increasing to 29s. 4d. in 1875-7), and pp. 207-8, where a fall of 1s. from 1895 to 1900 is referred to and the following comment is made :—
" These figures do not exhibit with great certainty changes in the annual value of agricultural land, as they include income derived from gardens, and many other non-agricultural lands. They are moreover liable to fluctuations which are the result of administrative changes."

Net Value of Land : Site Value—Economic Rent.

The campaign of the single-taxers and propaganda in recent years on the subject of the unearned increment have given rise to a considerable number of estimates of net or site value. For most of these the Sch. A assessments have been utilised, and widely different results have been obtained according to the estimated proportions and deductions that have been taken. Dealing first with land built upon (houses, etc.), we find the following proportions of gross value adopted for the sites :—

One-fifth.

W. H. Mallock¹ : " The Nation as a Business Firm " (average for all).

Sir T. P. Whittaker : " Ownership and Taxation of Land " (very full : outside London).

Sir R. Giffen : " Economic Inquiries," I., p. 263.

One-quarter.

P. Snowden : *Socialist Review*, March, 1909.

Harold Cox : " Land Nationalisation," 1906, p. 132 (being one-twentieth for country and one-third for town).

W. H. Mallock : " Phantom Millions," *Nineteenth Century*, 1909, p. 165 (adopted for 15 large towns ; but his combination approximates to one-quarter for all).

¹ Also " Socialism and Practical Politics," *Nineteenth Century*, April, 1912.

Sir L. Chiozza Money: "Riches and Poverty," p. 77 (probably "less than one-fourth" in provinces).

Sir T. Whittaker: "Ownership and Taxation of Land" (one-quarter of net value outside London).

One-third.

Sir L. Chiozza Money: "Riches and Poverty," p. 77 (for London).

W. H. Mallock: "Phantom Millions" (for London).

Harold Cox: "Land Nationalisation" (for towns).

J. D. Chorlton: "Rating of Land Values" (outside London—one-third rateable value).

One-half.

Edwin Adam: "Land Values and Taxation," p. 172.

Giffen estimated the "extra ground rent" as one-fifth of the increase in house property from 1815 to 1868, without reference to any possible change in the proportion.

Other writers approach the question from the point of view of the cost of building.

A. Hook¹ adopts the average value of houses (£20 to £40), takes twenty years' purchase, and deducts an average building cost of £300. For other buildings the average is £15 per annum and capital outlay £100. For the metropolis, building costs of £400 and £300 for houses and other premises respectively are adopted.

Sir Thomas Whittaker says that where land costs less than £300 an acre it may be taken that the cost of roads will be greater than that of the land. He quotes the well-known view of the London County Council valuers that one-third may be taken for sites, and also the following authorities:—

D. Murray ²	Glasgow	.	Buildings	= 8 to 15 times the site.		
"	"	.	Residences	= 10 to 20	"	"
Muspratt	Liverpool	.	Buildings	= 6 $\frac{2}{3}$	"	"
Tomlin	Wood Green	.	Buildings	= 7 $\frac{1}{2}$	"	"
"	Birmingham	.	Buildings	= 5	"	"
"	Portsmouth	.	Buildings	= 7	"	"
"	Glasgow	.	Buildings	= 10	"	"

¹ *Economic Review*, 1906.

² For numerous details as to Glasgow property, *vide* Murray, "Taxation of Land Values," 1907, quoting local authorities.

W. H. Mallock, after taking the house rent per inhabitant as £9 in London, £6 10s. in provincial towns, and £3 10s. in the country (differences adopted from Mulhall's Dictionary, pp. 314 and 744) says:—"Now it is obvious that such differences . . . are not due to differences in the cost of building . . . but must be mainly due to differences in the proportion borne by the rent of the sites to the total rent. Since, therefore, the total rent per head in London stands to the total rent in the great provincial towns and in the rest of the country in the proportion of 18 to 13 and to 7 respectively, the proportion borne by site rent to total rent must be taken as varying in a corresponding way." The inference is a somewhat extraordinary one, but there is no doubt as to what is meant when the further analysis is given. "If it is one-third of the total, or £3 out of £9, in London, it will be a little less than one-fourth, or about £1 12s. out of £6 10s. in the great provincial towns, and one-seventh, or about 9s. out of £3 for the rest of the country." Setting this out (in shillings) we get:—

Total rent:—		
180	130	70
Site rent:—		
60 (= one-third).	32 (= one-fourth).	9 (= one-seventh).
∴ Building rent is:—		
120 (= two-thirds).	98 (= three-fourths).	61 (= six-sevenths).

Thus the hypothesis, with which he starts, that the differences in cost of building do not account for the differences in the total is not borne out by the result—indeed, it cannot be, because the building value, £6, in London is by itself *greater* than the whole value in the country, and the building value in the large towns is also greater than the whole country value. It will be seen that the proportions obtained, viz., one-third, one-fourth, and one-seventh, are (if multiplied by 54) 18, 13½ and 7½, or virtually those of the total rents. This may or may not be a rational way of estimating the site value, but it seems to have little to do with the constancy of the cost of building, and it assigns for that cost in the ratios 120, 98, and 61 instead of 120, 88, and 47 respectively.

These sums as "site rents per head" multiplied by the population give the total for the country £41,000,000, making the total, with agricultural lands, for 1905 "a little over £80,000,000. The site rents amount to about one-fifth, if so much, of the whole." It will be observed that no additions are made for land used by railways, mines, etc.

Some writers press for a figure as high as 60 per cent. as the site proportion. Shearman ("Natural Taxation") said

it could be proved by an enormous mass of statistics ; it is the average in Boston, Massachusetts and Pennsylvania. For Great Britain, and still more for Ireland, he considered 60 per cent. too low, but even if it were as low as 30 per cent., his general principles would not be refuted.

Sir Thomas Whittaker¹ points out that there are three fallacious assumptions—(1) that foreign proportions hold good here ; (2) that capital proportions apply to annual values ; and (3) that the whole of the present taxes may be added to the total value.

Murray ("Taxation of Land Values") refers to these foreign and colonial instances, and urges that the high percentage of unimproved value to the total value is due to the great area of vacant land included. That this aggregate method is misleading is shown by the fact that per acre the buildings in New York are £1,419 against £6,000 in Glasgow, yet they are probably ten times as valuable.

The following recent estimates have been made of the value of the sites of buildings and houses :—H. Cox, £40,000,000 ; Sir L. Chiozza Money, £51,000,000 ; Edwin Adam, £100,000,000 ; J. D. Chorlton, £35,000,000 (outside London) ; Sir T. Whittaker, £50,000,000.

Sir Thomas Whittaker prepares the Sch. A figures by deducting from the gross assessments the errors and over-assessments, depreciation and repairs, and voids (dividing the latter equally between lands and houses—which is not in fact correct²). Sir L. Chiozza Money similarly deducts one-sixth repairs, charities, voids, and over-assessments from the total building values.

Even when the net value of agricultural land has been obtained before the site value or economic rent can be determined, it is necessary to deduct the improved value. The following estimates have been made :—MacCulloch, one-half for improvements ; R. J. Thompson, £12 per acre for improvements ; Trustram Eve, £8 = unimproved value, or £2 for the worst land in cultivation ; Sabin, four-sevenths ; Sir L. Chiozza Money, £10 for buildings, and half balance for

¹ *Op. cit.*

² *Vide* p. 63.

improvements; Sir Thomas Whittaker, 15s. 5d. out of 20s. average annual value—"prairie value, *nil*."

The following estimates have been made of the net agricultural value:—Sir T. Whittaker, £21,000,000 ("prairie value, *nil*"); H. Cox, £20,000,000; Sir L. Chiozza Money, £35,000,000; Edwin Adam, £26,000,000.

The *capital* value of agricultural land is dealt with in connection with "The Capital of the United Kingdom," Chapter XI.

There remains then the value of land devoted to railways, mines, canals, waterworks, etc. These concerns are not assessed under Sch. A, but on their profits, like Sch. D. They are rated, but the ratings are not free from the profit element.

Some writers make an estimate of the sum which may be regarded as applicable to land value:—

H. Cox: "Land Nationalisation" (£10,000,000).

Money: "Riches and Poverty" (£6,000,000 railways; £5,000,000 quarry and mine royalties).¹

Whittaker: "Ownership and Taxation of Land" (£12,100,000).

Others (Edwin Adam, Hirsch, etc.) assume one-half the profits assessed.

There is one form of estimate that can be traced back for many years, recurring at frequent intervals. On this account, and also because of the hardy character of its fallacies, it is worth detailed examination.

A recent version by Max Hirsch is given in the Appendix to "Land Values Taxation," by C. H. Chomley and R. L. Outhwaite, and is based mainly upon the income tax figures (for 1905-6) as follows:—

I. *Pure Land Values (Schs. A and D).*

- (a) Manors, fines, certain tithes, and certain sporting rights.
- (b) Markets and tolls.
- (c) Fishing in United Kingdom and sporting rights in Ireland.

¹ From Cd. 6980, p. 79 (figures in 1889).

(d) Lands, including certain rentcharges
(e) Houses

(of which 60 per cent. is pure annual value).

- (f) Railways.
- (g) Mines.
- (h) Gasworks.
- (i) Waterworks.
- (j) Canals.
- (k) Quarries.
- (l) Salt springs or works and alum works.
- (m) Cemeteries.
- (n) Tramways (net receipts) from the Statistical Abstract (*not* tax figures).

(o) Inhabited House Duty.
(p) Income tax collected (Sch. A).
(q) Income tax collected, Sch. D (Sch. A, No. III.).
(r) Local rates.

(s) Land tax.
(t) Local revenue from tolls and dues.
(u) Tithe (approximate).

							£
I.	.	.	.	.	.	.	2,384
II.	.	.	.	.	.	.	154,583
III.	.	.	.	.	.	.	42,078
IV. (o) to (r)	.	.	.	.	.	.	44,733
„ (s) to (u)	.	.	.	.	.	.	10,431
Total	.	.	.	.	.	.	254,208

In examination of this it is necessary to take the items in order, and for convenience there is some little repetition of matter dealt with in the early chapters of this work.

I. (a) *Manors, Fines, "certain Tithes" and "certain Sporting*

Rights.—In the case of many manorial payments and *fin*es (not separately distinguished in the Reports) there is a peculiarity in the law which makes it erroneous to include them in this estimate. They are already, in effect, in the totals for “Lands” under No. II., for the latter covers the rack rents out of which the fines are paid as occasional lump sums.¹ No deduction is allowable in calculating the gross values for Sch. A (given under No. II. above) for these occasional payments, and assessments upon these items are in the nature of double assessments, for which there is legal sanction, but which do not correspond with an actual extra value in the lands.

Similarly, *fin*es on renewal of leases are assessable, but, since the assessment does not stand if the money received is invested during the same year,² in practice virtually no separate liability arises under this head.

“Certain tithes” (*i.e.*, those not subject to the regular commutation) and “certain sporting rights” may rightly be regarded as “pure land values,” and the correction of the whole class (£1,310,673) would be met by reducing it about one-half.

(*b*) *Markets and Tolls.*—These figures (£869,635) are the “assessable profits” on the basis of the preceding year, in the ordinary Sch. D sense, and it is not easy to see why they should be treated differently from (*f*) to (*m*) under No. III.

In the case of tolls (as, for example, bridge tolls) there is generally considerable capital outlay, the interest upon which is included in the sums assessed, and it is doubtful whether more than one-quarter is “pure land value.”

Profits of “markets” similarly include the interest on considerable capital outlay. Three-fourths of the total item appears in the Report under “Local Authorities,” and in many cases there is no connection whatever between the profits of markets and the values of the market areas excluded from the Sch. A assessments, since the markets are not necessarily for maximum profit and for purely commercial ends, and the sites are in some cases possibly worth more, as sites, than the whole of the profits. The absence of any real connection makes it impossible to set down this item, or any fixed proportions, as purely “land value.”

II. The correct title of this class (*d*) is “*Lands, including rent-charges under Tithes Commutation Act, farmhouses, farm buildings, etc.*,” and if this had been correctly set out in the estimate it would probably have saved the error under (*u*) referred to later.

¹ *Vide* p. 46.

² 5 & 6 Vict. c. 35, s. 60; Sch. A, No. II., rule 5 (copied substantially from the Income Tax Acts of 1805 and 1806). *Vide* my article “Incidence of Taxation of Leaseholds,” *Economic Review*, July, 1911.

No exception can be taken to (*d*) and (*e*) being given gross without allowance for repairs, since a proportion of the total only is taken, and it may be said that this deduction is allowed for in settling that proportion.

The crux of the position is the percentage (60). This figure is supported by computations for American cities 60·59 per cent., New Zealand 68·94 per cent., and South Australia 65 per cent., to the fallacious character of which reference has been made.¹

III. Classes (*f*) to (*m*). Here Hirsch parts company from Shearman, who had placed all these items under division II., and taken 60 per cent. in a similar manner, but he adduces as a reason for taking 50 per cent. his desire to err on the side of caution !

Neither writer seems to realise that the distinction between these items and the general Sch. A is a purely legal one, a relic not merely of the Income Tax Act of 1842, but also dating from Pitt's income tax. So Hirsch, realising that tramways are similar in character to railways, but were non-existent in 1885, adds the "profits" to this section, not recognising that the ground for all these separate classes is that the annual value of the lands, etc., occupied by the subjects is excluded from the ordinary operation of the rules of Sch. A and is merged in Sch. D. Tramways are not within the scope of Sch. A, No. III., like these other classes. As he seems to have gone by analogy it is difficult to understand why he did not take "electric lighting works" as being a similar case to gasworks ! He makes the curious remark about this whole group :—"With the exception of tramways, however, such undertakings where carried on by municipal bodies have had to be omitted, for the reason that no statistics are available from which their rental value may be deduced. This is a serious hiatus, as the value must be high." He was apparently ignorant of the fact that municipally owned gasworks, etc., are assessed to income tax like others.

The various properties excluded from the Sch. A assessments and assessed Sch. D are rated to the poor rate. In Chapter I. a comparison was given showing how the totals of assessments under Sch. A compared with the totals of the poor rate for *the same* properties.

From these comparisons we get the value of property rated, but not assessed under Sch. A, as £25,500,000 in 1880 and £34,500,000 in 1892. In these years the total assessments under Sch. D on these concerns were £50,500,000 and £65,000,000 respectively, so that the annual values rated are roughly less than 50 per cent. of the profits assessed, and as the values rated are "improved" values, the unimproved values must be very much

¹ *Vide* page 347.

less, probably not more than 50 per cent. of the ratings, and therefore 25 per cent. of the profits. On this computation Hirsch's estimate must be reduced £21,000,000 at least under this head.

IV. *Existing Taxes on Land and Improvements*.—Even waiving altogether the vital question of incidence in each case, and accepting the method, some important corrections and criticisms are necessary.

Hirsch adds to the Inhabited House Duty and Sch. A tax collected an item for tax under Sch. D on the concerns No. III. £3,490,000, but it is not clear how this sum is arrived at, as the tax at 1s. comes to over £4,000,000. In any case, through following Shearman, he puts 60 per cent. of it into his estimate, although he has taken only 50 per cent. of the "value" of the concerns!

The whole sum paid as local rates seems to be included in the calculation, of which 60 per cent. is estimated to be pure annual value of land. But *some* of the rates paid are included in the gross assessment to Sch. A (already put in the estimate in full), being allowed as a deduction before the net assessment is arrived at, as in the case of rates in Scotland, rates upon tithe rentcharge, and some drainage rates.¹

Land Tax.—The whole of the tax paid over (£716,915) is included as "pure annual value," but it is totally overlooked by both Shearman and Hirsch that land tax is a *deduction* from the gross Sch. A figures already included in the estimate. In the case of a tenant paying land tax finally its amount has to be added to the rent paid to give the gross Sch. A assessment and then properly allowed again as a deduction.² The total sum so included in the gross figures and allowed as a deduction before arriving at the net assessment would not be the whole £716,915, but about two-thirds of it,³ the balance being accounted for by items so small as to be ignored in the Sch. A assessments, where their due allowance would not affect the income tax payable by more than a penny or two. The whole of this item should be excluded from the estimates as a double entry.

Local Revenue from Tolls and Dues (£5,714,043).—This is the amount appearing in the Statistical Abstract,⁴ for the year 1903-4. It represents *gross receipts* without deduction for expenses, wages, etc. ! Moreover, the full *profits* from this source

¹ But in the explanatory notes on p. 236 he claims to take 50 per cent. only.

² 5 & 6 Vict. c. 35, s. 60 ; Sch. A, No. V.

³ The 44th Report shows the land tax allowed in this way £416,117, and it has since somewhat increased, the assessments being slightly more accurate in this respect.

⁴ "Local authorities—receipts and payments."

are already included in the income tax assessments under No. I. (b) above. The whole of this item is wrongly included in the estimate.

"*Tithes* (approximate, £4,000,000)."—Hirsch says:—"The estimate of tithes, other than in Sch. A, is taken from Shearman's 'Natural Taxation.'" It appears as £4,054,000 in this work, taken from the tithe commutation return of 1887. The whole of this amount is wrongly included in the estimate, since all the commuted tithes are assessed to Sch. A and included in the gross figures (No. II. (d) above), while a few other tithes are included in No. I. (a). The tithes "other than Sch. A" are a figment of the imagination. In any case, *if* the commuted value was £4,054,000 in 1882-3, it could not be £4,000,000 in 1905-6 (since the commutation dropped from £92 11s. 10d. to £69 9s. 7d.), but would have been £2,800,000 only.

Hirsch stops at this point, and, even with the highly disputable principles involved, the necessary corrections upon the above lines would reduce the total by over £40,000,000. But Shearman¹ takes 60 per cent. of the taxes upon land (as the part applicable to "ground rents") from the gross British taxes ("because the landlords bear this already and receive the ground rents net"), and finds the balance £89,298,000 as the amount "to be collected from British rents, if all taxes were levied upon them . . . exactly 59 per cent. . . . All British taxes could be paid out of existing rents and yet leave to the landlords a clear income of £61,487,000, besides their house rents, etc., amounting to at least as much more."

The following are some of the *estimates of site value*:—

G. Gunton: *Forum*, March, 1887, £131,468,288.

Professor Harris: *Forum*, July, 1887, £65,442,000.

W. H. Mallock: "Property and Progress," £99,000,000.

H. Cox: "Land Nationalisation," £60,000,000 (on 1902-3 assessments).

Thomasson: "Land Nationalisation," *Westminster Review*, August, 1900, £200,000,000.

Sir L. Chiozza Money: "Riches and Poverty" (p. 77), £100,000,000 (on 1902-3 assessments).

E. Adam: "Land Values and Taxation" (p. 172), £170,714,000 (1904-5 assessments).

J. D. Chorlton: "Rating of Land Values," £55,000,000 (England and Wales).

¹ "Natural Taxation," p. 144.

W. Williams : " The World's Work," 1909, £80,000,000.

P. Snowden : *Socialist Review*, 1909, £105,000,000 (uses 1906-7 assessments).

Sir T. Whittaker : " Ownership and Taxation of Land," £91,000,000.

Concerning the estimates by Gunton, Harris, and Mallock, Shearman remarks :—" All absurdly erroneous, . . . all used tables excluding every penny of rent in the city of London, also valuation of railways, canals, mines, etc.," and that Mallock excludes Scotland and Ireland, while Harris omits all lands not used as farming lands. Edwin Adam refers to the same estimates, and their author's " crushing confidence."

The following writers deal with the site value of London :—

Dawson : " Unearned Increment " (p. 15) (quotes estimate by Sidney Webb and W. Saunders).

Chorlton : " Rating of Land Values " (quotes Webb, Harper, Gomme).

Some writers express themselves in terms of the annual increase in site value :—

A. Hook (*Economic Review*, April, 1906) gives the capital decrease on agricultural land, and increase on urban land, in quinquennial periods. London's annual increase is £7,000,000 and urban increase £40,000,000—capital value.

Mallock (" Phantom Millions," *Nineteenth Century*, 1909, p. 765) : Annual increment due to sites £980,000, gross—(annual values) England and Wales.

Chorlton (" Rating of Land Values ") : £1,300,000 annual value, England and Wales, £300,000 in London.

Other references to writings upon site value not already given are :—

A. MacCallum Scott : *The International*, February, 1909.

G. M'Crae : *Chambers' Journal*, January, 1901.

" Whig and Tory " : *Westminster Review*, June, 1899.

J. Hyder : " The Case for Land Nationalisation," p. 119.

CHAPTER X.

INCOME TAX STATISTICS AND THE "TAXABLE CAPACITY" OF IRELAND.

ONE of the most important practical uses to which the income tax statistics have been put has been in connection with the long controversy about the relative taxable capacity of Ireland. The evidence before the R. C. on the Financial Relations between Great Britain and Ireland, 1894-6, is very largely given up to an examination of these figures and to a discussion of their value as a criterion of taxable capacity in comparison with other tests. They had been used for this purpose by the 1864-5 Commission on Taxation in Ireland,¹ but nothing like the same importance was attached to them. In the Final Report (1896) the chairman and four others, "after a careful consideration of the various standards," came "to the conclusion that none of them have much value, taken separately, except two—(1) assessment to death duties ; (2) assessment to the income tax ; but that, taken collectively, all more or less support each other."

The reports by Lord Farrer and others, Mr. Thomas Sexton and others, and Mr. Childers laid similar stress upon their importance, while various writers have used the income tax figures since the Commission reported. Lord Castlereagh would gladly have availed himself of such a standard if it had existed, for in his speech on the Act of Union in 1800 he was of opinion that "the best possible criterion of the relative means and ability of two countries to bear taxation would be the produce of an income tax levied on the same description of incomes in both, and equally well levied in both." It is not within the scope of this book to consider the results of the various investigations, and reference to the reports must be made for that purpose, but the technical handling of the

¹ *Vide* p. 150.

material and the general considerations that arise from the use of aggregated incomes to test taxable capacity are the two subjects for treatment here. As regards the first subject, it is quite certain that an uninstructed comparison of gross figures may contain many pitfalls for the unwary.

(1) **Aggregated Gross Assessments (all Schedules).**—It has been a common practice ¹ to use the "total income reviewed" for purposes of comparison, and, although it has been adequately criticised, quite recent writers have continued the method, viz. :—

The figures given by Erskine Childers, "Irish Fiscal Autonomy," in "The Fiscal Relations of Great Britain and Ireland," p. 65, are for 1909-10 :—

Ireland, £15,872,302	} (together, £371,808,534).
Scotland, £96,204,055	
England and Wales, £275,604,479	

They are described as "gross income reviewed for income tax." The source of these figures in the Report cannot, however, be traced, and the actual figures are, for 1909-10 :—

Ireland, £40,191,827.
Scotland, £93,020,031.
England and Wales, £877,888,487.

Professor Oldham, in his essay on the "Public Finances of Ireland" ² quotes the gross sums correctly £1,011,000,000 for the United Kingdom, £40,190,000 for Ireland, showing a ratio of 25 to 1.

The comparison of "gross sums reviewed" is a very crude one, because while Schs. C, D and E gross figures exclude most of the "exempt" income (*i.e.*, it is not dealt with in the assessments), Schs. A and B cover the *whole* gross income from land and property. Now if the proportion of exempt income to liable income under Schs. A and B differs greatly in the two countries, and if gross Schs. A and B bear a much higher ratio to the total in one country than in the other, the comparison of gross figures in this way is worthless. Schs. A and B in Ireland account for nearly half the total, but in Great Britain for 27 per cent. only. The Irish Schs. A

¹ Giffen, "Economic Studies," I., p. 434.

² P. 14 of "Fiscal Relations," quoted above.

and B income includes 47 per cent. exempt, while that for Great Britain has 14 per cent. only. Combining the two results, and deducting exemptions (Schs. A and B) from both totals to get the figures as comparable as possible, we have—United Kingdom £964,100,000, and Ireland £33,700,000—a ratio of 29 to 1.

Giffen expressed this reason for rejecting the gross figures in the following terms :—" The gross happens to include the total annual income from certain kinds of property, which kinds of property, or some of them, happen to be the principal kinds of property in Ireland, and are not the principal kinds of property in Great Britain, whereas the net assessment is the assessment of all incomes above a certain amount ; therefore the net assessment in both countries is exactly on the same footing " (R. C. on Financial Relations, Q. 7,821).

But even the elimination of exempt income from Schs. A and B does not suffice, and the result of the above adjustment is not a true comparison of net assessments such as Giffen desired. The figures are not *pure* for purposes of comparison, because the Schs. C and D gross income includes many exempt amounts upon which tax is *repaid* (dividends from companies, etc.). Table 116 (53rd Report) gives the total exemptions in respect of small incomes (by repayment or otherwise) included in the gross amount reviewed for the United Kingdom, millions £58·2. The corresponding amount for Ireland may be collected from the separate totals for the schedules (except Sch. C, where it is not distinguished, but this may be neglected), and totals to £9·2. Thus the net aggregates are : United Kingdom, £953 ; Ireland, £31 ; and the ratio is 31 to 1. But this adjustment has not always been possible.

(2) **Aggregated Net Assessments.**—It will be clear that the use of net assessments is much closer to a true comparison of *like* objects than the use of the gross ; but, owing to the change in the form of the statistics in 1900-1, even this is now quite a different thing from the numerous comparisons made before the Royal Commissions of 1865 and 1894. It was then only possible to compare the *provisional*

net assessments, whereas now we can deal with the *actual net assessment*¹ upon which duty is paid, after allowing for repayments, etc.

It is doubtful, however, whether this comparison is of real utility, because it is after allowing personal abatements (which are devices to obtain graduation), and it is clear that if we really wish to compare, in Giffen's phrase, the total of "all incomes above a certain amount" the figure to be taken is the aggregate gross assessments less all exemptions, as indicated in the concluding part of paragraph (1) above.

(3) **Sch. A and True Values of Property.**—If the aggregate gross assessments are used, it is obvious that any difference in the relation between official values and true values in Ireland as compared with Great Britain is of great importance, as it may seriously invalidate the comparison. Even if net assessments are used, it is still material. In 1894 and prior years the proportions of Sch. A exempted in Ireland (representing ownership of property by persons whose total incomes do not exceed £160) was small, and even now, though considerable, it is not large enough to make this question insignificant.

The relation between official values and true values has already been dealt with at some length,² and it is clear that at the present time Ireland is seriously under-valued, and no comparison of taxable capacity should be made without allowance for this difference.³ Moreover, even when the true Irish rental value is known, it must be borne in mind that it is a *net* rental, and to that extent also differs from British rentals.⁴

The influence of this factor was very exhaustively discussed before the Royal Commission of 1894. The 1865 Commission had come to the conclusion that Ireland did not in this respect enjoy any *important* advantage, but of course the fall in Irish land values after 1880 was a great inducement

¹ *Vide* p. 306 for explanations.

² Chapter IV.

³ On the general question, see "Revaluation of Ireland," by N. J. Synnott, *Journal of Statistical and Social Inquiry Society of Ireland*, August, 1900

⁴ *Vide* Chapter IV.

to the Irish witnesses to represent the valuation as excessive in 1894, despite much expert evidence to the contrary. One witness wished to deduct one-quarter to allow for the agricultural depression, but of course this was on the tacit assumption that the valuation was *correct* when that depression began! ¹ There was much counter-argument on the deficiencies of the British Sch. A assessments, and mansions were said to be badly under-assessed in England compared with over-assessments in Ireland. ² References were made to the considerable value of the vacant "unrated" land in London. The same witnesses in their eagerness sought to prove that railways and collieries were badly rated in England, ³ in ignorance of the fact that, even if proved, it would not affect the question, as these concerns, though rated, are not included in the Sch. A assessments which were under consideration. ⁴ There was also much play upon the *primâ facie* probability that a valuation made by a single central authority, like Griffith, would be more stringent than one made by the host of small inexperienced local bodies in England, and when it was pointed out that the Government surveyor of taxes "revised" the latter valuation for Sch. A it was sought to prove that his revision amounted only to occasional interference; but this suggestion was refuted by expert evidence, and also by the comparison between income tax assessments and poor rate values. ⁵

Unfortunately, even the last-named clear comparison was hopelessly misunderstood, ⁶ and false arguments were based on the misunderstanding. From the total *rated* property is deducted the property that is rated but not assessed to Sch. A in order to arrive at the rated value of property which is both rated and assessed; this deduction includes the ratings on railways, etc. The adjustment amounted to one-ninth in England, but only one twenty-eighth in Ireland (where collieries, mines, etc., are few), so an equal proportionate

¹ Q. 5,554.

² Qs. 5,471, 6,108, 6,123, 6,602.

³ Qs. 5,477, etc., 6,120.

⁴ *Vide* p. 26.

⁵ *Vide* p. 29; Qs. 6,119, 6,245, 7,094, 8,164.

⁶ Qs. 6,989, 7,228.

adjustment was claimed! The deduction had nothing whatever to do with the relative comparability of ratings and assessments upon the same body of property.

There was much dispute as to whether tenant right was included in the valuation in Ireland,¹ but what has already been said² will suffice. Any right existing at the time of the valuation may be regarded as theoretically included, but nothing created since can in theory be covered, although where judicial rents are below the valuation the difference may now be wholly or partly set against such tenant right. Many frail thatched houses having no letting value (for maintenance would exceed rent) were said to be included in the valuation and to swell it unduly.³

There was also a suggestion that the Griffith method involved a double rating on farm buildings not practised in England:—"First you value the land as an equipped holding, and then value the house again"⁴; but it was definitely negatived by Sir John Barton.

The statistical transfer of the value of farmhouses from "messuages" to "lands" affected comparisons between the nineties and the sixties, and led to some misunderstanding.⁵

The plea that Irish valuation was not deficient, in the case of houses, was forcibly urged by some witnesses, one even going to the length of stating that a revaluation in Dublin would not result in any increase.⁶ It was stated as a rejoinder that in many cases English ratings were kept above the depreciating values by local authorities.⁷ The fact that the British gross assessment represented rent before charging repairs, and that the Irish gross assessment was *after* charging repairs had insufficient notice considering its importance.⁸

¹ Qs. 6,029-36, 6,289, 6,944, etc.

² P. 156.

³ Appendix II., *infra*.

⁴ Qs. 6,107, 6,200.

⁵ Qs. 6,073-80, 7,363 (*vide* p. 491, *infra*).

⁶ Q. 6,351.

⁷ *Vide* my article on "Land Valuation and Rating Reform," *Economic Journal*, July, 1911. This over-rating still obtains to some slight extent; but its effect upon income tax assessments, made independently, is almost *nil*.

⁸ Q. 7,137.

Against any possible comparative deficiency in the Irish Sch. A many witnesses set an alleged English deficiency under Sch. D ; and in summing up on this point six Commissioners regarded the two elements as balancing each other, three put the question aside as unsolved, three insisted that not only was the Irish case prejudiced by its comparative excess under Sch. D, but also by its excess under Sch. A, while two Commissioners ignored the comparison.

It is clear that Sch. A alone could not be taken as a test of taxpaying capacity unless its proportion to the whole were the same in the two countries.¹

(4) **Sch. B and True Values—Sch. B Assessments and Sch. B Incomes.**—As Sch. B is also based upon the valuation, all that has been said on Sch. A as regards lands equally applies. But exemptions have, of course, always been of greater importance, and the difference between the use of gross and net assessments is by far the greatest under this schedule.

We are of course now used to the Sch. B statistics being given as one-third of the Sch. A value, ranking (however conventionally) as *income*, on equal terms with the figures in the other schedules. But in the 1894 and 1865 inquiries strangely enough, despite the close examination and criticism of the figures, it was never pointed out that the Sch. B figures represented *annual values*, *not incomes*, and these figures were added to the others on equal terms without question.² Of course, as a matter of fact, a Sch. B *assessment* represented three times the taxable income from the farm in question, and whenever *incomes* were in question the Sch. B assessments had to be divided by three. The practical effect, in liable cases, was obtained by charging the assessment at one-third the ordinary rate of tax, but if a farmer were filling up his total income claim he would insert as his income from the farm one-third of the annual value (the proportion in England was then one-half). Giffen was quite misled on this point in criticising Baxter's estimates.³

¹ Q. 8,029 ; Appendix II., p. 383.

² *Vide* computations by Giffen and Sidgwick in Appendix to the Evidence.

³ Q. 7,722.

It is clear that, Sch. B being relatively of great importance in Ireland, this correction will reduce the Irish proportion of the total appreciably. But the difficulty no longer exists when recent figures are under consideration.

(5) **Schs. A and B as a True Test of the Incomes of Land-owners and Farmers.**—It was contended that Sch. A assessments, even if correctly based on rents under the same nominal conditions as to rates and repairs in each country, are not necessarily comparable, because what is taken as *rent* from the total produce may differ in the two countries owing to economic friction or the force of custom. Mr. O'Brien said that the Irish landlord took one-third of the produce, and the English landlord one-fifth.¹ Sir J. G. Barton agreed that this fact would affect comparison, while for dairy farms the valuers were said to assign two-fifths of the value to the owners. The argument was typically stated thus :—

Q. 6,313. "On the question of principle, if it were found that the Irish landlord takes a larger proportion of the produce for rent than the English landlord, and that consequently the English tenant, after paying the cost of production, has a larger balance of the produce than the Irish tenant for subsistence, that consideration would of course affect the value of the yield of income tax as a measure of the capacity of the whole population in each country to bear fiscal burdens, would it not?"—A. "Yes, it would seem so."

But no one saw that "what is lost on the swings is made up on the roundabouts." For Sch. A was never really to be a separate test of capacity; all the tax schedules were taken together. Schs. A and B *together* in theory make up the *net* produce of the land—the owner's share and the farmer's share; and if one is too large by comparison with England the other must be *pro tanto* too small.² There was really nothing of importance in this contention.

When we come to the difficult question as to how far Schs. A and B together *really* approximate to the income, the

¹ Appendix II., Qs. 5,901, 6,313, 6,848, 6,851.

² Suppose the English proportions were 18 : 9 and the Irish 19 : 8, the English total for Schs. A and B together was 27 (*i.e.*, 18 + 18 ÷ 2), but the Irish was still only 25½ (*i.e.*, 19 + 19 ÷ 3) (1894).

evidence is inconclusive. For land that would be worth £1 rent in England, one witness said in Ireland 33 per cent. must be deducted for cost of buildings and equipments by the tenant, then 15 per cent. for repairs and maintenance, 10 per cent. for remoteness of markets, and 5 per cent. for the greater cost of manures, so that the Irish farmer would only afford 8s. 6d. assuming he is to make the same profit.¹ This witness was certainly pro-Irish, and it is interesting to see how the assessments properly made according to rule on his data (ignoring rates) would really compare.

Prior to 1894 (no repairs allowance, and a different Sch. B "fraction") :—Ireland : A 8s. 6d. + B 2s. 10d. = 11s. 4d. (or assuming tenant right is included, 20s. 8d.) ; England : A £1 + B 10s. = 30s.

Since 1894 :—Ireland : As above, 11s. 4d. — $\frac{1}{8}$ of A (repairs) = 10s. 4d. (or, including tenant right, 18s. 9d.) ; England : A £1 + B 6s. 8d. — $\frac{1}{8}$ repairs A 2s. 6d. = 24s. 2d.

These comparisons represent the assessment results for identical produce (it being understood that interest on maintenance expenses has to be included under Sch. A), and certainly do not support the witnesses' contention that they favour England.

One witness said that a tillage farmer could not live unless he made six or seven rents.²

Dr. Grimshaw³ made an estimate of the income of Irish agriculturists in 1885 :—

	£
Total value of crops and live stock disposed of .	62,000,000
Expenses : Seed, food, etc., £15,300,000 ; labour	
£8,200,000 ; rent and taxes, £11,000,000 .	34,500,000
Net income	27,500,000

This was somewhat reduced in criticism, though not materially. The total Sch. B, which is all there is in the tax

¹ Q. 6,844.

² Q. 6,817.

³ Appendix, p. 7.

assessments to deal with this profit, was in 1885 one-third of £10,076,000!¹ No particular attention was, however, drawn to the discrepancy. Giffen made the landlord's rent, the labourers' wages, and the farmers' profits together £40,000,000,² so that there is no great disagreement with Grimshaw's estimate. The bearing of this on the question of relative taxable capacity obviously depends upon the corresponding figure for Great Britain,³ but the official figures clearly favour Ireland.

(6) **Sch. D as a True Test of Income in each Country.**—

The point was repeatedly made that the evasion under Sch. D was relatively much less in Ireland than in England, Irish income being more "narrowly," "stringently" assessed,⁴ because the liable income was all obvious and clearly visible. England was said to have relatively much more of the classes of income in which evasion or legal avoidance was possible, and particular reference was made to foreign investments,⁵ which was described as the weak spot of the tax, not only because liability was more difficult to check, but also because no tax was payable unless the income was actually *remitted* to the United Kingdom. The point as to relatively less evasion was not without expert contradiction,⁶ and far too much stress was laid upon early and isolated instances of gross evasion in England which had been instanced by Gladstone.⁷ Giffen showed some confusion of thought upon this question when he remarked: "I should say the part of the United Kingdom which is most strictly assessed is neither England nor Ireland, but Scotland, where you really have a scientific system thoroughly and logically applied,"⁸ for he was evidently thinking of the valuation system under Sch. A. There is no such difference between the Sch. D system in Scotland and England. The point is not capable of complete proof, and although it was mentioned in several of the reports, in the opinion of most official

¹ And yet one witness said the Irish Sch. B assessment was excessive! (Q. 6,191).

² Q. 8,055; Appendix II., Q. 5,496.

³ P. 102.

⁴ Q. 8,044.

⁵ Qs. 8,046, 8,128-40.

⁶ Q. 7,310.

⁷ Qs. 7,658, 8,150.

⁸ Q. 8,164.

experts there is no ground for thinking that evasion in Ireland is relatively less than in England.

(7) **Place of Assessment as a Proper Test of Origin of Income.**—Owing to legal or administrative methods it is possible that income may not be assessed where it really belongs. Thus, a bank whose profits have been assessed in Dublin and have figured in Irish income becomes amalgamated with a London bank ; no change of customers or of shareholders takes place, but the Dublin assessment disappears and a combined assessment is made in London. Or again, some Irish stock is assessed for convenience under Sch. C in London. Official "corrections" of these various items have been made for some years in the periodical "Financial Relations" return. The adjustments were the subject of discussion and criticism before the Commission, the particular return in question being that for 1893-4 (314 of 1894).¹ Under Sch. A the whole of the net receipt in each country is assigned as the true contribution. "There is no means of ascertaining . . . where the persons live who are in receipt of the income derived from such property, and there is therefore no alternative but to assign these items in accordance with the figures of collection. As to Sch. B the assessments are made on the actual occupiers of the land, who almost universally reside where those lands are situated ; it is therefore shown as collected."² "It is under Sch. C that the necessity for some correction of the figures as collected is most obvious, no portion of the amount being assessed in Scotland, and only a small proportion in Ireland. The great mass of the securities are assessed in London, but they are held by persons domiciled in all parts of the three kingdoms." In default of a better criterion the statistics of property assessed to Probate Duty were used. They indicated "with tolerable accuracy" how much English property is held by persons domiciled³ elsewhere, and how much Scotch and Irish property respectively is held by "absentees." The information was obtained from the records of "resealing."

¹ *Vide* p. 407 of the Appendix.

² Q. 622.

³ The test of domicile being the place where probate was taken out (Q. 1,031).

A table was given showing the percentage adjustments on this basis for 1889-90.¹ England had to receive 1·6 per cent. and Scotland and Ireland to give 1·4 and ·2 per cent. of the total gross Probate Duty respectively, *i.e.*, Scotchmen and Irishmen held "more property in England than is held by Englishmen in either Scotland or Ireland. . . . If these percentages may be accepted as fairly accurate where capital is concerned, which is the case with the Probate Duty assessments, it is not unfair to apply them in the case of income of a corresponding character ; . . . incomes derived from such property are mainly comprised in Schs. C and D (public companies, foreign dividends, coupons, etc.), and only a small portion of them are comprised in that part of Sch. D assessed as trades and professions."² "The remainder of Sch. D (trades and professions) is shown as collected, for as the assessments are made at the place where the trade is exercised, it may be taken that the tax is borne by persons resident in the country where it is paid." So the table under Sch. C³ and part of Sch. D attributed the collection of £4,775,949 England, £396,921 Scotland and £153,659 Ireland as follows :—

	£
Imperial sources	96,000
England	4,594,725
Scotland	471,492
Ireland	164,312

Similar adjustments were made for one-fifth part of the trades and professions, while under Sch. E £82,000 out of £936,284 in England was attributed to Imperial sources. The table contains, of course, adjustments for other branches of revenue, with which we have no concern.⁴

¹ The use of a single year was criticised (Q. 1,031), but it was stated that although the total under probate varied the distribution was constant.

² *Vide* p. 222 as to these categories.

³ For doubts as to whether Sch. C was properly adjusted, see Qs. 1,085, etc.

⁴ On p. 402 of the Report is a summary of hypothetical corrections, the income tax being an addition to Irish revenue 1849-50, £5,700 ; 1859-60, £3,791 ; 1869-70, £5,917 ; 1879-80, £7,446 ; 1889-90, £10,112.

It will be seen that the principle was to assign real property to the country where situated, and personal property where the owner is domiciled. In discussion Lord Milner described the method as "ingenious," but admitted that "satisfactory" was too strong a term.¹ There were points in which "net receipt" differed materially from assessments—the concession of charging income tax, Sch. A, in Ireland on rent *as received*, instead of upon the rent receivable or the valuation, began in 1881,² and there were great arrears for some years.³ Pensions paid from Indian revenues, *all* in London, wherever the pensioner might be domiciled, were an example of the kind of correction required. Giffen did not encourage these minute adjustments, and thought they made little difference in the end. It is obvious that whereas for one part of income an attempt had been made to attach it to the recipient, for a large part (Sch. A), the place of derivation alone was considered, and the inconsistent principle was criticised at some length. The principles in opposition were:—What is a country capable of producing? and what are the inhabitants of a country capable of paying? Lord Milner was inclined to lay all the stress on the former, doubtless in defence of the official return, and when asked whether debts should not be deducted he said that the time element was important, and if there was a permanent drain a deduction might be made.⁴ The income tax was a good test of the capacity of a country, but not of its inhabitants.⁵

Absenteeism.—This question arose as a direct result of the discussion as to whether taxpaying capacity was to be judged by producing power or spending power.⁶ Lord Milner estimated that one-third of the Irish rental went to England, and that one-third of the value of Irish land represented money from English companies and lenders. What with absentee landlords, both English and Irish, and tenants paying interest to the Treasury or to English mortgagees,

¹ Q. 636.

² Qs. 737, 747. The tax written off in the schedules of discharge increased greatly in 1881 (Q. 6,006).

³ Qs. 7,670, 7,822, etc.

⁴ Q. 1,001.

⁵ Q. 1,019.

⁶ Q. 6,369.

neither the yield nor the assessment was a good measure of capacity.¹ The following estimate of absentee rental in Ireland at various dates was quoted from Dalton's "History" :—1691, £136,000 ; 1729, £627,799 (prior) ; 1782, £2,223,222 ; 1804, £3,000,000 ; 1830, £4,000,000 (also £3,000,000—Bryan) ; 1838, £5,000,000.

Mr. O'Brien's figures were based upon a parliamentary return in 1872, which gave £2,470,816 as the rental paid by Ireland to absentee landlords of *rural* properties, to which was added, in proportion, £960,900 for urban property, interest on mortgages to British insurance companies (computed by Sir R. Giffen in 1886 at fourteen millions) at an average of $4\frac{1}{2}$ per cent., £630,000 per annum, with repayments to Church funds, Treasury loans, quit rents, land purchase annuities, and remittances of savings bank deposits, reckoned at six and a quarter millions in all. He thought that half the valuation of the country was subject to mortgage.²

Swift in his day had said that one-third of the rents of Ireland were spent in England, and that with other remittances a full half of the income of the kingdom went there.³ Mr. T. Lough thought that five millions, or one half the rents, went abroad,⁴ and another Irish witness estimated four millions at least.⁵

Giffen was reluctant to admit that absentee transfers made much real difference, and when arguments were based on the economic effect of transferring spending power bodily from one country to another he referred to the immense difference between the static and the dynamic points of view, and showed that, as in the case of Australasia and the United States, the remittance of a very large sum is quite consistent with the highest state of prosperity.⁶

¹ Qs. 992, 1,012, 1,014.

² Q. 7,003. Giffen assumed that one-fourth part of the nominal agricultural rental (£10,000,000 in 1883-4) came to England "on balance" as mortgage interest ("Economic Value of Ireland to Great Britain": "Economic Studies," I., p. 445).

³ Qs. 5,488, 6,997.

⁴ Q. 8,589.

⁵ Q. 5,489 ; *vide* also Qs. 4,448, etc.

⁶ Qs. 7,661, 7,842.

In the Final Reports the chairman and four Commissioners agreed with Mr. Erskine Childers that the "economic drain" should be deducted from the income tax figures, but Lord Farrer and his two colleagues replied that "the tax is taken before the money is spent," and there are also counter-remittances to Ireland, that the two cannot be brought to any numerical test, and that they are not of sufficient importance to invalidate the statistics as a test of taxpaying capacity.

The reconciliation of the two contentions is really quite simple, although never clearly brought out in the Report, and it does not involve abstruse considerations of the time element. As will be observed in the pages to follow, all the Commissioners agree—as a principle though not in detail—that taxable capacity measured along the lines of income is really referable to an aggregate of individual capacity. Therefore we may postulate that aggregate at this point. Now debts and interest payable form no part of individual capacity, and in judging what *individuals can* pay these charges must be allowed. Suppose the income assessed in Ireland and England respectively to be a and b , the drain to be x , the rate of tax to be $\frac{f}{y}$, and that the *whole* revenue is to be raised by this tax. The tax apparently paid by (*i.e.*, collected in) Ireland is $\frac{a}{y}$, but since by the process of deduction (as by every doctrine of incidence even if open deduction were not allowed) Ireland recovers the tax $\frac{x}{y}$, her actual burden is $\frac{a-x}{y}$, which is the proper tax on her true net income, while England bears $\frac{b+x}{y}$. But in fact the whole revenue is *not* raised by the income tax, and if part is raised by expenditure taxes and *taxes which are not on produce and shiftable to absentee consumers*, the relative taxable capacity for such taxes must not be $a : b$, but $a - x : b + x$. That is, the drain must be allowed for in judging of taxable capacity

for all taxes except income and produce taxes, but for income tax the system automatically adjusts itself. If you take the charges from the apparent income you must deduct the tax on the charges from the apparent tax burden: you may adopt either method, but must adhere to it consistently in computing both the subject and the object.

All the foregoing considerations relate to corrections of the bare tax statistics which are necessary, or which must be taken into account, before the figures are really *available for use* in a direct manner for this problem. They appear to be much more formidable than they really are, the only serious item being the correction of the Sch. B convention.

But when the tax figures are purified, how far can rules as to taxable capacity be scientifically based upon them? Further considerations arise, which may be briefly reviewed.

The Population exempt from Income Tax.—If the income tax were so levied that no *exempt* person could bear taxation of *any* description, its figures would be final. But its exemption limit is not an absolute one for all taxation—it is merely convenient relatively, and is only approved because this tax forms part of a system, and those who escape it are reached in other ways. No one would assert that no taxes at all should be paid by persons with incomes under £160. Therefore the non-income tax paying class is important when total taxation is being considered. If this class bears a constant ratio to the taxpaying class, then the difficulty is solved, since results and variations applicable to the latter will also be correct for the whole. Lord Milner in evidence remarked:—"Of course, the income tax assessments cannot possibly be a test of the capacity of the multitude to pay anything"¹; and the suggestion that if the ratio of income tax to total revenue in the two countries was the same the two communities were in an analogous condition, was too remote from the facts to require consideration. The high exemption limit made it an improper test.² Giffen was disposed to

¹ Qs. 990, 991.

² Q. 1,015. *Vide* also Mr. W. F. Bailey's article in the Journal of Statistical and Social Investigation Society of Ireland, 1885, p. 71. He points out that the entire population *may* individually come near the minimum, and therefore the profit *assessed* be infinitesimal, or

belittle the importance of any slight difference in the proportion; it would have to be *widely* different to make the application of the income tax ratio of capacity to the countries as a whole really wrong.¹ Sidgwick could not follow this contention, because there *was obviously* a much greater proportion of Irish income below the exemption line.² The familiar expedient of doubling the income tax assessment to get the total income was not considered wholly applicable to Ireland, although it was freely used.³ On this basis Giffen took the aggregate income for Great Britain as £1,424,000,000, against £76,000,000 for Ireland.⁴

It is not, however, within the scope of this chapter to deal with the actual methods of ascertaining the income below the income tax limit.

Aggregated Individual Incomes as a Test of Capacity: The Subsistence Minimum.—It needs very little progress upon lines of proportional taxation tempered by the deduction of a subsistence minimum to make one realise that the *average* individual income is an important feature, for a small number of rich men having the same aggregate income as a large number of poor persons will certainly have greater capacity to pay taxes; and the aggregate by itself tells us little. Mr. Lough put the average English income at £39 and the average Irish at £15, and adopted the subsistence minimum incapable of taxation at Giffen's figure, £12, so that the taxable balances were £27 and £3 respectively. These balances multiplied by the population gave the "capacity" for the country.⁵ Giffen took the average income per head as £41 10s. and £16 5s. respectively,⁶ or, on a basis of comparative wages, man for man, in considering

the majority may be starving, and a limited section have very large incomes.

¹ Q. 7,675.

² Appendix to Evidence.

³ Qs. 7,803-6.

⁴ Q. 9,979.

⁵ Q. 9,637.

⁶ Q. 9,979. But the figures for an earlier date were £14½ and £29½, less £10 subsistence in each case (Q. 5,513), and are lower still for 1886 by his computation in "Essays": "Income of the Irish People."

the wage earners alone, £60 and £33.¹ It was accepted that Giffen and Levi agreed that the English individual taxable capacity was twice that of the Irish.² The Irish were said by one person to have really "no residue for bearing taxes at all."³

The question arises as to whether the subsistence minimum should be deducted from all incomes. Can it be taken to be the average of a high minimum for some with a low one for others? It was not considered to be an average in theory, but it was admitted, so far as Ireland was concerned, that £12 might be more than the whole income (per head) in many homes, and that therefore a margin was left which gave a higher minimum for others.⁴ But in principle it seems best to regard the minimum as being applicable to all, as it really is in fact, having regard to plain physical necessities, and one need not be misled by the machinery for digression in actual taxation where "abatements" cease at a certain point, for such abatements do not represent a non-taxable minimum at all.⁵

A more important point is whether the same minimum must necessarily be taken for Ireland as for England. Giffen would not countenance a different figure "taking advantage" of the poorer country,⁶ although he admitted the minimum in Ireland was *de facto* lower. Sir E. Hamilton considered that the relative standard of life there must be taken into account; and necessities were much cheaper.⁷ It would seem hardly fair to the poorer country, however, if revenue is being taken for a common pool, to take advantage of a lower standard of life, and to act in the direction of preventing its improvement. But having adopted the same nominal minimum, it is advisable to adjust it by reference to the comparative index number for prices for the necessities usually obtained for it, if there is any substantial difference; the minimum should

¹ Q. 7,719.

² Q. 1,651.

³ Q. 4,063.

⁴ Qs. 10,310, etc.

⁵ Cf. Professor Oldham, "Financial Relations" Conference, p. 10.

⁶ Q. 8,120.

⁷ Q. 10,326.

be reckoned by an equality of goods as far as possible. One might imagine that the whole net balance should be thus adjusted to prices, but on the whole, *unless the tax to be taken ultimately is also adjusted*, this refinement seems to be confusing the issue. Bastable, however, argued against taking the same minimum, and turned rather away from minimum necessities for *life* to minimum necessities for *production*.¹ He quoted Marshall:—"The income of any class in the ranks of industry is below its necessary level when any increase in their income would in the course of time produce a more than proportionate increase in their efficiency,"² and, following this line, his criticism of Giffen's result was somewhat searching. He appreciated the difficulties of determining the disposable net income for comparison, deprecated the refinements, and considered that, on the whole, comparative gross income was the "fairest rough test, and no test can be looked upon as more than an approximation." For my own part I think that although the adjustments may be criticised, they contain a much smaller net error than the unadjusted figures, and give a closer approximation to the truth. Circumstances can readily be conceived in which the gross figures would lead to an unjust result.

The Progressive and Differential Capacity of Individual Incomes.—In 1864 and 1894, when the income tax was a simple proportional one, tempered with digression, the theory of comparison stopped short at a deduction for subsistence minimum. Bastable hinted at progressive capacity,³ and Giffen replied specifically on the point, to the effect that as a considerable body of opinion, particularly in France, was against the progressive idea, it was inexpedient to apply it.⁴ Taxation was not progressive in *fact*, and that was of course a sufficient answer.

But to-day we have a full progressive system, and would not readily assent to the suggestion that two countries with the same number of inhabitants and the same *net* income

¹ Appendix I. to Report.

² "Principles of Economics," II., p. 4.

³ Appendix, p. 184.

⁴ Qs. 7,773, etc.

(after the subsistence minimum was subtracted) had necessarily the same capacity. For the distribution and "spread" might be very different, although the average was the same.¹ It is a mathematical corollary from the marginal and progressive principles that the capacity of wide extremes is greater than that of the same average distributed more evenly as a modal type. Various factors could be applied to the totals to give effect to this principle, such as the use of the quartiles in the distribution, or multiplication by the reciprocal of the Pareto index α .² But there is no better test than the income *tax* actually paid, because this expresses automatically the effect of the current ideas about progressive capacity. It applies, however, only to the income above the exemption limit, and it might be well, therefore, to calculate comparative capacity for the exempt and liable groups separately, and then bring the results together. The adjustments for income due to other countries would give trouble. On the whole I think the best adjustment would be to divide the total gross assessed income by the total duty paid in respect of it and obtain a factor which will be low if there are many rich people and high if there are not. The reciprocal can then be used as the multiplier for the adjusted totals.

Incomes differ in capacity, not only by amount, but also by kind. Other things being equal, a predominance of "unearned" income would indicate a higher capacity. This, again, is accurately expressed in the duty, and the adjustment in respect of it would be fully effected by the above method.³

Some economists consider that incomes capable of expression in money terms do not exhaust the true conceptions of income.⁴ It may, in some circumstances, be necessary to

¹ Sir E. Hamilton got near this point, but thought the "higher incomes" in Great Britain would not materially alter the case (Q. 10, 195).

² *Vide* p. 464.

³ At present the super-tax statistics are not divisible as between the income derived from the two countries, or the total incomes paying in each country, so that the method is not fully available. There is a good deal to be said for the "net produce" by itself as a test of capacity. Hansard (24.4.13 and 16.7.14) gives an official division of the total. *Vide* list at the end of this chapter.

⁴ Q³. 7,651, etc.

consider the value of wives' household services, but ordinarily speaking no adjustment under this head could substantially change the general ratio.

Earl Dunraven quotes the 1903-4 "net receipt" for each country and also gives "net produce of a *rd.* rate in the £ (about) —United Kingdom, £2,772,768 ; England and Wales, £2,435,139 ; Scotland, £243,244 ; Ireland, £94,384." It will be seen that this is a mere division of the "*net receipts*" by the rate (*11d.*) and differs from the official figures, which are based on net produce. He emphasises the fact that Ireland pays only just over one-twenty-seventh of the total ("Ireland's Financial Burden," *Nineteenth Century*, July, 1905).

MISCELLANEOUS DOCUMENTS ON FINANCIAL RELATIONS AND DIVISION OF ASSESSMENTS.

H. C. 163—1893 ; H. C. 305—1893 ; H. C. 334—1893. Financial relations : Allocations of revenue collected.

H. C. 344—1893. Financial relations : Death duties.

H. C. 316—1893. Five years' statistics of collection, 1888-9 to 1892-3.

H. C. 118—1894. Death duties.

H. C. 313—1894 ; H. C. 182—1901. Explanations of financial relations returns.

H. C. 313—1898 ; H. C. 317—1899. Collection and contribution.

H. C. 377—1900. Collection and contribution (figures for each ten years).

Cd. 6897. The true Irish contribution.

Hansard (52), 24.4.13 ; 21.4.13 ; and 16.7.14. Income tax and super-tax contributions of Great Britain and Ireland separated :—1910-11, £60,608,000 and £2,164,000 ; 1911-12, £42,370,000 and £1,504,000 ; 1912-13, £42,770,000 and £1,463,000 ; 1913-14, £42,031,000 and £1,374,000.

Hansard (35), 1098. The available information does not permit of a statement of the estimated income per head of the population in Great Britain in 1861 and 1910-11.

Hansard (25), 1982. No reliable estimate of proportion of Irish to British gross income is known.

CHAPTER XI.

THE NATIONAL CAPITAL.

THE accepted method of ascertaining the national capital wealth is the capitalisation of the income tax statistics so far as they cover the ground, supplementing the results by estimates for the remaining items. Although used by others before Giffen, notably Baxter and Newmarch,¹ it is generally associated with the name of Giffen, because he elaborated it in his well-known work "The Growth of Capital," and instituted a decadal comparison. No worker in this field can afford to be ignorant of Giffen's study, and it would be idle to recapitulate here all his conclusions. These comments are by way of supplement to what may be found in his writings, and relate mainly to the methods and limitations involved in the use of the income tax reports.

It is generally agreed that national capital wealth can be stated with less certainty than national income, because everything depends upon the number of years' purchase, or rate of interest, employed to capitalise the annual profits. The method has the merit of continuity and also of being practically the only one available to present a comprehensive historical test of accumulation of wealth.²

Giffen was careful to point out that this mode of valuation had no reference to accumulated capital *outlay*, which *might* not amount to so much. Nevertheless, the values were stable and not transitory, and they represented facilities for production and distribution, which "must be equal all in all to the facilities existing anywhere else, because they are constantly tried in the furnace of free trade and

¹ *Economist*, December, 1863. The income tax figures for 1854 to 1860 were used to show annual savings £130,000,000, and the results were compared with increases by ratings, House Duty, railway capital, and fire insurance (*S. J.*, 1864).

² *Economist*, 1911, p. 1,088, and Porter's "Progress of the Nation," p. 705.

are not sustained by adventitious means." The value must be that of a "going concern"—in itself a "violent hypothesis"—and the profits for that purpose he considered to be more reliable than any statement of actual capital outlay, with its risk of including *wasted* savings and improvident investment. But he recognised that his method does not necessarily register true *accumulation*, for increase may be exhibited where no actual outlay has been made.

Valuation as a "going concern" means the capitalisation of future prospects. W. J. Harris¹ remarks that this is not what we want when comparing inventory wealth. "The figures have been used by the public as representing the actual wealth of the United Kingdom without this qualification, and they give an exaggerated idea of it to the ordinary mind." He refers to the fact that Bismarck brought against the French their own valuations of national wealth when treating for the evacuation of Paris, and what M. de Foville called "*improvisations malheureuses*" may, on occasion, prove disadvantageous and should warn us against exaggeration.

But what other value can be assigned than is furnished by the prospect of immediate and future achievement? No degree of usefulness *in the past*, and no amount of actual outlay *in the past*, can weigh against lack of such present and future utilities as men generally are willing to estimate and pay for in the common measure and medium. The value of a capital asset is not in what it has "cost" in the past, but in its stream of production of economic satisfactions (whether material or immaterial) for which men will give effort and sacrifice. The capital value of such a stream or "income" for *any given moment* is meaningless; it is the income itself for that moment: capitalisation must mean a consideration of the stream and its entire possession over a period of time, and that period must be from "now" onwards. It must therefore involve a consideration of the possibility of the stream diminishing or expanding in volume, *i.e.*, it must take into account future potentiality for which an immediate market value is assignable, even

¹ S. J., 1894, p. 542.

though the stream has not yet *begun* to flow. The attempted distinction of an "inventory" value cannot be carried through logically; all that really emerges from the attempt is the warning that the wealth estimated in one complete way must not be assigned or applied to a purpose for which wealth *in one of its particular forms* is alone applicable. If I have to decide how much tea I can buy at any moment when I am at the grocer's door, and if it is a law that I can only command tea by the tender of certain round pieces of metal, it is no use for me to reckon upon the "value" of a stock exchange option, the documentary evidence for which is in my pocket.

Although wealth is conveniently converted into a common term, it is well not to disguise the fact that wealth itself expresses little convertibility, and its essential feature as wealth largely depends upon its being allowed to take part in production along its own lines. Because a nation's wealth is found to be £10,000,000,000, and because also it is found that it may wage a certain war by expending shot and shell "costing" £2,000,000,000 per annum, it is idle to assert that it can "afford" a war for five years. Comparisons of that order, even if not of that degree, are constantly being made. A nation whose wealth is in cocoanuts is limited in its ability to wage war against a nation whose varied wealth includes mines, by the value which the rest of the world sets on cocoanuts, and the readiness with which it may be satiated by them. Therefore two nations equally "wealthy" by a capital valuation in ordinary conditions may be very different when compared for *any specific purpose*. Although remarks upon some of the difficulties arising from the general conception may be more conveniently deferred until they appear distinctly in the detailed examination of sections of "wealth," it may be well to refer briefly at this juncture to considerations applicable to the whole valuation.

(1) Changes in valuation may be masked or exaggerated by secular changes in gold values—the general measure of the valuation. This thesis needs no elaboration here.¹

¹ *Vide* Giffen, "Essays in Finance," I., p. 162.

(2) Changes in valuation may be due to the emergence of wealth not susceptible of money measure into a category which may be so measured, the social environment being the changing factor rather than the wealth itself. If a right to wealth is not exchangeable it has no market money value, but as soon as it is exchangeable it is "quoted" in the money market, and we know what it is worth. From this springs another and a more serious difficulty. Progress in social organisation may facilitate the methods for making rights exchangeable, particularly by the invention of legal forms, legal entities, and corporations. A great vocalist may have derived £1,000 a year from his talents without the capital value of his powers appearing in the national valuation, and those powers are not "exchangeable." But let a company be formed to "acquire" rights in his work, with a capital of £10,000, which they pay over to him on an agreement; they then "earn" the £1,000 profit and pay a dividend of 10 per cent., and the vocalist's powers at once appear in the national valuation at a substantial figure. While we refrain from taking any stock of personal values and personal goodwill, we are open to the danger that "progress" in the national valuation may be a mere transfer from such a category to the category of the *same* elements held corporately and in a state which is negotiable. An extreme instance has been taken, but the difficulty is seen acutely when we consider the capitalisation of public companies' profits, to be discussed shortly.

(3) In a broad view of wealth, gain in the forms which may be measured by money valuation because transferable from one individual to another may be offset by loss in forms of wealth attached to individuals and not so transferable. "Personal capital" may strictly be the *higher* form of wealth, and it might well be that the course of progress is to satisfy human *physical needs* by the production of commodities with continually greater economy and freedom, so that more and more human effort is emancipated to produce non-tangible wealth as the capacity for physical enjoyments is satiated. One community of mill hands may save £300 per head for their children by investment in savings banks,

and be content that they shall continue to serve the mill. This "saving" appears as an increase in the national valuation. Another community may save £300 per head and invest it in the education of their children, who become doctors, teachers, prophets and preachers, and a true increase in the national "wealth" does not come out in the "valuation." The inferences and satisfactions to be drawn from any increases in the "Giffen valuation" must wait upon a consideration of this aspect, not only before the whole answer, social, ethical and spiritual, can be given, but even before the total *economic* result is announced. A very real step forward in the national well-being may take place while the Giffen measurement is stationary.

(4) Associated with, but somewhat different from, the foregoing, is the consideration that the Giffen valuation postulates a certain constant co-operation of labour, management, and risk-taking with the fixed or material capital, and that, in so far as the remuneration arising by the association of these elements is included in the profits, it is also included in the valuation, although a very considerable part of the "living capital" is excluded. Professor Nicholson has developed this conception,¹ and criticises the adoption of fifteen years' purchase for "house rentals"; it is "perfectly plain that houses would not yield 6 and 7 per cent. unless a certain portion was actually earned by constant expenditure of labour." He finds the difference between the net rate of profit upon the capital, $5\frac{1}{2}$ per cent., and the 3 per cent. pure interest, to be mainly due to the labour involved in maintaining and employing capital, the risk element, from a national point of view, being of little importance. So, too, with regard to furniture, its proper use involves a large amount of labour; the value of the "greater part of movable property would vanish, but for acquired abilities of the inhabitants," and the value of a paint-box is given by way of example. He considers that no sufficient reason has been given for the precise figures used for turning income into capital, and for ascertaining what is derived from capital proper and what from management. By valuing ordinary

¹ *Economic Journal*, 1891: "Strikes and Social Problems."

labour at thirty years' purchase, adding remuneration for management of dead capital £8,000,000,000, for domesticated humanity £10,000,000,000, and £1,000,000,000 for professions and officialdom, he reached £47,000,000,000 (in 1891) as the value of living capital, or nearly five times the value of dead capital.

Except as a warning that the Giffen valuation cannot give the full story of national welfare, these considerations of an ultimate character are of doubtful value in relation to the practical aims of that valuation, because they complicate and diffuse the ordinary issues.

The separate sections of the valuation may now be considered in so far as they involve an interpretation or application of the income tax gross assessments.

The chief estimates to which reference will be made are those by :—

Giffen for 1865 and 1875 ("Essays on Finance," 1st Series, and *S. J.*, 1878), and for 1885 ("Growth of Capital," 1889).

The Treasury in "Paget's Return," 1883-4 (*H. C.* 345—1885).

Lord Milner for 1893-4 (*R. C.* on Agriculture, 1895-6).

W. J. Harris for 1892-4 (*S. J.*, 1894).

Sir L. Chiozza Money for 1902-3 ("Riches and Poverty," 1905); and for recent estimates,

Economist (18th February, 16th August, 25th November, 1911).

E. Crammond (*S. J.*, July, 1914).

Others have been made, but these are representative and cover the period.

Lands (including Tithe Rentcharge).

Giffen took thirty years' purchase for 1865 and 1875, reduced to twenty-six for 1885 (the result of capitalising lands in Ireland at fifteen and in Great Britain at twenty-eight years' purchase). He was at some pains to justify the reduction and to find a "safe mean in the transitional

circumstances " of 1884-5. The loss in capital represented over 316 millions, or 15 per cent., which was apparently less than the general impression, for he draws attention to (1) the lagging of the change in assessments behind the real change; (2) the stationary valuation in Ireland; (3) the large amount of "residential" value, which did not change as much as agricultural lands; (4) the fact that English tenants were not rack-rented and had virtually a beneficial interest, so that the loss had not fallen exclusively on rent.

There is no doubt that (1) at that time was important, and was masked by rent abatements, which ended, reluctantly, in becoming permanent: (2) was not always fully understood. Major Craigie, in 1878, referred to the "small rise in Ireland" compared with the 21 per cent. and 26 per cent. elsewhere.¹ It would have been better if a real estimate of Irish rental could have been made, before capitalisation, because it represented such a large proportion of Irish capital, and was important if the three countries were being compared.

Giffen's reduction in the number of years' purchase was justified by events. The opinion was expressed in 1852 that land yielded 4 per cent.,² but thirty years' purchase was given with equal authority.³ In 1869 Baxter took twenty-three years for lands, houses, and mines, but until the eighties thirty was generally recognised.⁴ In 1885 the Treasury adopted twenty-five for Paget's Return "after careful inquiry . . . in various parts of the country." In 1894 Harris was urging the necessity for lowering the English figure from twenty-eight to twenty-five, and that upon a more stringent valuation. By 1896, when the values and the methods were carefully considered, eighteen years' purchase of the gross assessment was frankly accepted,⁵

¹ Journal of Royal Agricultural Society, 1878.

² S. C. on Income Tax, Q. 4,280.

³ S. C. on Income Tax, Q. 4,884.

⁴ Craigie, Journal of the Royal Agricultural Society, 1878; *Economist*, December, 1863.

⁵ Lord Milner before R. C. on Agriculture, Qs. 63,289, etc.; also R. C. on Financial Relations, Final Report, p. 23. *Vide* Porter's "Progress of the Nation," p. 203.

and the fact that it involved a "loss" of over 1,000 millions, or 50 per cent., in a few years, was very widely quoted. Eighteen was adhered to for some years,¹ but not without dissentient voices,² which have recently gathered in strength. Edgar Crammond uses twenty-five years,³ and the *Economist*⁴ recently gave a comparison for 1885, 1895, 1905, and 1909, using Giffen's basis for 1885 throughout, which seems rather to burke the difficulty.

These great changes in the "values" of land reveal in a striking manner the limitations of the whole method. In what sense was 1,000 millions "lost" in fifteen years, or in what sense has the value diminished from 2,000 millions in the seventies to perhaps 1,000 millions at the present time? In the national sense the land and its potentialities are still there. It is clear that if a country became half-derelict, its producing or feeding power in bushels practically halved, the result would be no worse by this method than if, with produce maintained, it changes in esteem as an investment and alters when compared with other sources of income through great secular movements in prices or in the rate of interest. It seems that no comparison of results could be satisfactory without recourse to some index numbers of purchasing power. Without an additional penny being invested, the value might rise to great proportions, with consequent encouraging inferences. It may be said that it does not represent the national utility of the land, but the aggregate of individual values, and shows at any rate the limit of value as a mortgage security. Such a description is not, however, quite justified. Valuation is based entirely upon current productivity at the market rate of estimation for security for a continuance of that rate. Therefore it ignores potential *increase* of productivity entirely. The Sch. A assessments take little or no account of potential building values

¹ 1902-3 (Money: "Riches and Poverty," 1912; "Things that Matter," 1905); Bidwell, "Changes in Value of Land since 1860," Institute of Surveyors, Transactions, 1905.

² "Thirty years," 1902-3 (*Westminster Review*, 1906).

³ *S. J.*, January, 1912, for Scotland; *S. J.*, July, 1914, for the United Kingdom.

⁴ 1911, p. 1,087.

in land near towns, and valuable vacant sites are omitted altogether. It may be argued that such values are not wanted in a national valuation of existing wealth, and it would vitiate results to anticipate the future. But the point is that just as it is hardly a real national value, so at the same time it falls short of an aggregate of *individual* market values, expressed as the limit of mortgage securities.¹ Minor points may be mentioned :—

(1) Rates should be deducted before the capitalisation in Scotland.

(2) Harris criticised Giffen,² and said that 10 per cent. should be allowed from the gross rental, and that land was worth only three-fourths of the Sch. A value. To the total so reduced he added two millions for undiminished fancy land, and one million for accommodation land, making a deficiency of 670 millions in 1894 compared with 1885. But this is all a matter of arranging the number of years' purchase upon gross or net values, and in taking twenty-five years instead of Lord Milner's eighteen he arrived at the same result.

(3) Woodlands are not fully covered by the tax assessments.³

Houses and Messuages generally.⁴

In 1878 Giffen considered twenty years' purchase might reasonably be taken, but he adopted fifteen as a safe

¹ *Vide S. J.*, July, 1915, where it has been remarked that the valuation of property under the Finance (1909-10) Act, 1910, for the new land taxes will certainly show a result far in excess of the Giffen capitalisation. Of course—it *should* do so. This method only values the uses of existing buildings and occupation, based on present rentals; it takes no account of future improved uses, whereas the market values must reflect such future uses and different occupations. It is not inconsistent to say that the Giffen method should be supplemented by the capital value of vacant building lands, without going so far as to include personal anticipations of particular monopolies of future development, attaching to premises now in use. The Giffen method should not anticipate future additional activities. Therefore it should consider the value of each property on its present utility, and the present utility of a building site may not unreasonably be taken on its value for immediate building—the fact that it is being held up for some future development is beside the mark.

² *S. J.*, 1894, "Comparison of Growth of Wealth in France and England."

³ *Vide p.* 24.

⁴ For early estimates *vide S. J.*, 1902, p. 595 :—Beeke (1800),

multiplier. In 1885 he adhered to fifteen years' purchase on the gross assessment in England and Scotland and twelve years for Ireland. Except for Paget's Return, with sixteen years "after careful inquiry," fifteen years has been consistently maintained since Lord Milner regarded it as the same as eighteen years' purchase of net values. This valuation includes very diverse elements; not only houses, but also factories, mills, stables, and business premises. Being based on "annual" value, which fails to reflect the capital value (in the sense of investment) for some classes of property, such as country mansions and town halls, it falls short of the true "accumulation" of capital in such cases by applying a severely commercial or competitive test.

Harris¹ comments that higher rents should not be considered an advantage, because this class does not represent "productive property." This again depends upon the point of view. It would seem that whether rents fell, as for lands, or rose, as in this class, we were in evil case! He allowed for void property and then took fifteen years' purchase of the result. This is fallacious, because the number of years' purchase takes into account the ordinary risks of empty property already. It is true, however, in so far as there are always in assessment a number of properties which are practically unsaleable, being untenanted and waiting the day of demolition when the owners are sufficiently convinced or when time is ripe for other developments. On the whole there is no sufficient reason for adjusting these figures. Sir L. Chiozza Money points out that a considerable amount of trade capital is included, and much that is only fit for destruction is valued in such figures.

"Other Profits" under Sch. A.

Giffen took thirty years, Paget's Return and Lord Milner twenty-five years, which has been adhered to since. Having regard to the miscellaneous character of the items

£200,000,000; Colquhoun (1812), £400,000,000; Love (1823), £400,000,000; income tax (1843), £585,000,000; Milner (1895), £2,244,000,000.

¹ S. J., 1894, *op. cit.*

included, this multiplier is too high. The sporting rights would hardly justify the rate of interest chosen, and the net result of analysing the several parts is nearer twenty-one years. Some items are merely legal duplication of income.

Sch. B (Farmers' Profits).

Farmers' Capital.—It has long been recognised that the Sch. B assessments offered little assistance in estimating the capital employed by farmers in agriculture.¹ A good summary of the question may be found in Mr. R. H. Rew's paper on "Farming Revenue and Capital."² He quotes Caird's estimate of £400,000,000 (or about six times the rent) as the first serious attempt. Giffen in 1878 (for 1875) had taken ten years' purchase of £66,752,000 "farmers' profits" under Sch. B.

"The resulting total is rather less than £700,000,000, which again is less than the value of three years' gross produce, which is estimated by the best authorities at £250,000,000 annually. Whether this figure is sufficient for farming capital as distinguished from that of the landlord, it will be for those well acquainted with the subject to judge. I have been desirous again to take a low figure."³

The reason for taking the whole gross assessment, and not *half*, was not made clear.⁴ The estimate was strongly criticised as giving £14 per cultivated acre.⁵ In 1890 Giffen defended the use of the gross, but adopted eight years instead of sixteen (although he inclined to ten), and discussed the objections,⁶ and particularly Major Craigie's views, at some length. He urged the necessity for accounting for (1) the value of a year's crops; (2) the value of the live stock; (3) the value of machinery and tools; (4) unexhausted improvements and beneficial occupation; and (5) the value of woods and plantations not included in the

¹ *Vide* R. C. on Agriculture, 1896, Qs. 63,309, 64,033, etc.

² Journal of Royal Agricultural Society, 1895.

³ "Essays in Finance," p. 168.

⁴ Fabian Tracts ("Capital and Land," p. 34) erroneously analyse Giffen's figure. He did not "overlook the fact" that profits were *one-third* of the rent in England.

⁵ Rew, *op. cit.*

⁶ "Growth of Capital," p. 15.

Sch. A values.¹ He quoted the estimates by Howard and Turnbull—£200,000,000 for crops, £150,000,000 for live stock, and £50,000,000² for implements—and adhered to £520,000,000 for their 1885 estimate.

In 1894 Harris gave a detailed estimate, putting live stock at £197,000,000, cereals and produce at £172,000,000, and implements, etc., at £46,000,000. He deducted one-tenth of the value of live stock because the enumeration was as at 4th June instead of the end of the year, and one-quarter from the produce because a great part of one crop is often disposed of before another is ready. This method of valuation by primary produce, feeding-stuffs, etc., rather than by secondary produce, or *sale* of live stock, was criticised by Major Craigie.

A writer in the *Westminster Review* in 1906 put the value of machinery and "movables" at two years' purchase of the land, and made the total value £293,000,000.³ The *Economist* recently gave £368,000,000 for 1895, £340,000,000 for 1905, £348,000,000 for 1909, and altered Giffen's figure of eight years' purchase to sixteen, without referring, however, to the altered basis.

Estimates of Farmers' Capital (in millions).

1869 : Baxter, £300 (animals alone are £170).

1874 : Turnbull, £440 (R. C. on Agriculture, 1896, Appendix A).

1878 : Caird, £400 (Journal of the Royal Agricultural Society, Vol. XIV., p. 2).

1878 : Craigie, £376.

1884 : Loss of £73 between 1873 and 1884 (surveyors' Institute Journal).

1885 : Paget's Return, £300.

1887 : Craigie, £300 (*S. J.*, June, 1887).

1893 : Turnbull, £366·7 (Farmers' Club Journal).

1894 : Harris, £352 (*S. J.*, 1894).

¹ *Vide* p. 24.

² As to the question of farm stock and greenstuff produce being double valuations, see Harris, *S. J.*, 1894.

³ January, 1906.

1895 : Rew, £319.

1896 : Milner, £200.

1897 : Turnbull, £330 (R. C. on Agriculture, Appendix A).
McConnell, £320 ("Agricultural Notebook").

1905 : Money, £285 ("Riches and Poverty").

Estimates of Tenants' Capital per Acre.

1846 : £10 (*vide* evidence before S. C. on Real Burdens affecting Property, Qs. 1,900, etc.).

1874 : £9 6s. 9d. (R. E. Turnbull, R. C. on Agriculture, Appendix A).

1878 : £8 (Craigie).

1881 : £10 (Caird, S. J., p. 633. This is where the owner wants £50 per acre for the freehold. The tenant expects 10 per cent. on this capital).

1894 : £6 (Harris).

1896 : £6 17s. 9d. (R. E. Turnbull, R. C. on Agriculture, Appendix A).

1896 : £7 to £10 (R. C. on Agriculture—Evidence, Qs. 1,439, 21,515-7, 21,931-4); £6 or £6 to £7, formerly £10 (R. C. on Agriculture—Evidence, Qs. 13,345, 14,875-6, 15,580, 30,596, 60,709, 61,897); £10 on good farms (R. C. on Agriculture—Evidence, Qs. 24,383, 24,862).

1905 : £6 (Palgrave—"thought by Craigie to be too low"; adopted by Money, "Riches and Poverty," 1905).

Sch. C : The National Debt.

This item was given by Giffen as "Public Funds less Home Funds." The deduction represents "the permanent charge of our own National Debt." The Indian and colonial Government loans formed a large part of the item, and the average rate of interest was taken at 4 per cent.; Paget's Return and Lord Milner's valuation continued this estimate. Recently Mr. Crammond lowered it to twenty years' purchase. It is not an item calling for much comment, because the rate of interest is capable of fairly exact verification from periodical articles in the *Economist* and other financial papers.

The question of the inclusion of the National Debt is a more difficult matter. Giffen considered that the effect of capitalising the whole of Sch. C would be to reckon the debt "twice over":—

"The National Debt is a mortgage upon the aggregate fortune of the country. As we may assume it to be practically all held at home, we may reckon up our whole estate without deducting the debt, whereas we should have to deduct it if it were held by foreigners; but while we do not deduct the debt from the total of our estate, neither can we add it without falling into error."¹

He emphasised this in 1889, correcting the words "twice over" as a slip, and added:—

"Of course, to each individual holding a portion of the National Debt, the holding is property. . . . On the whole the reason assigned is a good one. But I should not censure very much any one who included the debt as a part of the capital of the community . . . the money expression of all the other capital of the community is less than it would otherwise be by the amount of the debt; . . . if there were no debt, lands, houses, etc., would exchange for rather more than they now do. The debt in this view represents a certain distribution of part of the capital of the country, and we do not get a complete view of the capital unless we include it."²

He admitted that in comparisons with other countries, or in considering different periods over which the debt had greatly changed, the point might be important, but on the whole preferred to exclude it. Lord Milner included it at thirty-three years' purchase. Sir L. G. C. Money deducts National and Local Debts from the value of public property (giving a net £450,000,000), and includes them under the general statement of capital; the *Economist* and Mr. Crammond apparently ignore them, but have a higher figure for Government and local property, £630,000,000 and £750,000,000 respectively.

If we raised money individually for war, by borrowing

¹ "Essays in Finance," 1st Series, p. 167.

² "The Growth of Capital," p. 22. In Paget's Return, 1885, the Treasury observe that, although Giffen excluded the debt, "it clearly exists as personal property for the purposes of taxation," and it was therefore included by them.

from persons with loanable resources, on the security of our possessions, the position would be that there would be an annual interest charge upon our incomes, *from which we should deduct tax*, and the recipients would have no "income" to return for taxation. Thus the capitalisation of our property values would cover the capital of the lenders. If the capital lent had not been blown away in shot and shell, it would be represented by additional capital, goods, and permanent expenditure, which would come into the national valuation, but, as it has disappeared, no such additional capital appears. So if a nation's savings are accumulating at the rate of £300,000,000 per annum, and a war breaks out which is just financed by these savings for three years, the total valuation should remain constant for those years. It would remain constant by the method indicated. But in fact we do not pay this interest as such—we pay taxes—and to capitalise the interest received out of those taxes is to add to the national valuation where there is no real addition; *unless the value of all incomes* (or the number of years' purchase) *has pro tanto fallen*, the result will be too great. Giffen rather suggested as his view that such a depression in value exists. If our values were settled by a foreigner, with catallactic brain, seeking an income in Britain or elsewhere, the existence of this non-beneficial or onerous charge would lower his estimation of possibilities here relatively to countries with no such burden, other things being equal; but as most eligible competitors would have similar drawbacks the difficulty is minimised. However, values are mainly determined by internal competitive considerations, and although a differential burden upon ownership of capital with no burden upon earnings might alter their relative positions, the fact that *this burden* is fairly distributed on both classes with no possibility of shifting leaves the relative values unaltered. Values as a whole, however, might change relatively to the general price medium, gold; but, even there, credit facilities have such a much larger bearing upon that issue that a depression could be easily offset by a more highly developed credit system. Altogether it appears probable that any effect of a long-

standing debt, like in character and amount to those generally found, would be, if existent at all, in the direction of depressed values, but certainly not *pro tanto* with the debt involved. It is therefore duplicating values almost to the entire extent to add Consols to the full fee simple value of national property.

It must not be forgotten that Consols are a mortgage upon earned income as well as unearned income, both being subject to tax for payment of interest. Sir L. G. C. Money's method rather suggests to us that, in a valuation of property, although the loans themselves are undoubtedly property to the holders, it is only necessary to reduce the valuation of real property by the *proportion* of Consols secured thereon instead of by the whole debt. However, his method is clearer than Giffen's, and probably meets all that is really required.

The question is further touched upon under the heading "Interest secured on Rates."

Quarries and Mines.

Giffen put four years' purchase in 1875 and 1885, Harris adopted four, Lord Milner seven (after Paget's Return in 1885), Money five, and Crammond four; the *Economist* adopts eight. The two official returns employed seven years, because they recognised what the other writers appear to have consistently overlooked, viz., that the "profits" being capitalised include *all the royalties*, which are a first charge, and to which a much higher figure than would be proper to the remaining profits is applicable. If the profits generally were worth five and the royalties at least twelve, the multiplier for the whole would be about seven and a half. But these profits are worth more than five years' purchase.

The *Economist* rejects Giffen's "surprising assumption," not upon this ground, but because "a review of the reports of such companies shows that the market estimate . . . is far greater than four years' purchase . . ." ¹ The companies quoted in the *Investor's Monthly Manual* alone gave twenty

¹ Porter's "Progress of the Nation," ed. Hirst, p. 701.

millions more than the total value of mines, etc., on Giffen's assumption. The *Economist* does not take the point that the factor arrived at on one set of figures is being applied to another set which are not wholly of the same order. If eight years' purchase results from the investigation, the factor for the whole income tax figure should be nearer nine and a half years.

Ironworks.

Years' purchase : Giffen and Harris, four ; Milner and Money, five ; *Economist*, eight ; Crammond, four.

Gasworks.

Years' purchase : Baxter, twenty-five ; Giffen, twenty for 1875, twenty-five for 1885 ; Paget's Return, twenty ; Milner, twenty-five ; Money, twenty ; Crammond, twenty ; Harris in 1894 thought twenty-five too high.

Waterworks.

Years' purchase : Baxter, twenty-five ; Giffen, twenty ; Paget's Return, twenty ; Harris, over twenty ; Milner, twenty-five ; Money and Crammond, twenty.

Canals, etc.

Years' purchase : Giffen and Baxter took twenty-five ; Paget's Return, Milner, Money, and Crammond all take twenty, but Harris regarded it as low.

Fishings.

Years' purchase : Giffen and Paget's Return, twenty ; Milner, eighteen ; Money and Crammond, twenty.

Markets, Tolls, etc.

Years' purchase : Giffen, Milner, Crammond, and Money, twenty.

Railways in the United Kingdom.

Years' purchase: Baxter took twenty-five; Giffen, twenty-five for 1875 and twenty-eight for 1885; Paget's Return, twenty-five; Milner, thirty; Harris, twenty-eight; Money and Crammond, twenty-five.

Railways out of the United Kingdom.

All writers take twenty years' purchase.

Foreign and Colonial Securities.

Years' purchase: Giffen took fifteen for 1875 (followed by Paget's Return) and twenty for 1885; other writers have also adopted twenty since.

Other Interest : Interest paid out of Rates.

Years' purchase: Giffen and Milner, twenty-five; Money and Crammond, twenty.

Other Profits.

This small item has generally been taken at twenty years' purchase.

Trades and Professions.

Baxter said: "Trades and professions require working capital, the interest on which, in the opinion of competent judges, amounts to one-fifth of their gross income"; and Giffen's comment was that he regarded this as a minimum.¹ "By speaking of a fifth of trade and professional income as being interest on capital we in fact imply that only a usual or legal rate of interest is considered to be derived from capital . . . and we are therefore moderate in capitalising at fifteen years' purchase only."

Milner followed Giffen, although he regarded the figure as very doubtful, and Harris criticised it severely in relation to the method of dealing with companies.

¹ "Essays in Finance," 1st Series, p. 166.

Since 1900-1 the statistics have not been presented in the form "trades and professions" and "public companies," but employments have been separated, and the general class remaining, made up of persons, firms, and companies, has been called "Businesses not otherwise detailed."

Recent writers do not, therefore, distinguish the "ownership."

Sir L. Chiozza Money assumes one-half of the net profits (after adding for evasion) are from capital, and takes ten years' purchase, which gets over the difficulties in Giffen's method when there is transition from private to company form.

We get in consequence rather divergent results. Taking companies and trades together, Milner gives £2,043,000,000 for 1894, and the *Economist*,¹ following with twelve years' purchase instead of fifteen, £1,500,000,000 for 1895, £2,458,000,000 in 1905, and £2,727,000,000 in 1909, whereas Money gives £1,750,000,000 on 1902-3 figures.

There is no trace of any genuine investigation into this question, and it is probable that if Baxter had put the proportion at one-sixth or one-fourth, it would have been as readily accepted, without challenge, down to the present time. It is clear that for the inquiry to be of any use it must be undertaken on a considerable scale and the sample results properly weighted in relation to the industries affected. Thus, for example, it is almost certain that over one-third of the profits of "persons and firms" as distinct from companies relates to wholesale and retail distributive trades. It would be necessary to exclude all return upon capital in real property assessed Sch. A, and to consider capital in book debts, stock-in-trade, business fittings, fixtures, and machinery. Baxter's one-fifth, applied to the present "persons" and "firms" statistics, gives well over 40 millions, whereas if these items are taken roughly from the Estate Duty statistics, even with a high multiplier, such a figure cannot be approached. The "employments" carrying no capital element must serve to reduce the general average proportion. Indeed, if one

¹ It is not quite clear how these totals are arrived at, as no details are given.

excludes them, the average assessment on "persons" for "businesses, etc., not otherwise detailed" is about £300, and an average capital, on Giffen's method, of £900 seems rather high.

This matter is becoming increasingly involved with public companies, and is small in relation thereto. Sir L. Chiozza Money's plan of taking the whole profits together has much to recommend it. If ordinary business aggregates to 200 millions and company business also to 200 millions, the *Economist* estimate at twelve years' purchase would be 2,880 millions, and the criticism to be urged against it is that the "jump" from one category to the other is so great that companies must certainly be valued too high if ordinary business capital is not absurdly low at one-fifth. Sir L. Chiozza Money's would give 2,000 millions, and by valuing only half the company profits at ten years' purchase a very drastic reduction has been made for all the non-physical capital elements, but an over-generous estimate is given to ordinary business capital. It must be remembered that the ordinary business profits include all salaries and management earnings by the owners, whereas such elements are excluded from assessments on companies, and it is quite certain that the capital involved for equal amounts of assessment under the two heads is much less in the case of private management. On the whole I am of opinion that the truth is certainly between the two extremes or methods.

Public Companies.

Baxter took twenty-five years' purchase; Giffen fifteen for 1875 (which was also adopted by Paget's Return in 1885), twenty for 1885; Milner, twenty; Crammond, fifteen; *Economist*, twelve.

Giffen originally took fifteen years in 1875 for miscellaneous public companies, "which would include banks, telegraph companies, insurance companies and the like," and in altering the figure for 1885 he paid regard only to the change in the average rate of interest. No writer seems to have inquired into the change of *content*. Joint-stock enterprise now

covers the whole field of industry and commerce, and not merely the classes indicated by Giffen, in which there was but a comparatively small section under private control. One has now to consider whether the method of ascertaining the capital, say, of the grocery trade, or the cotton industry, under joint-stock control is comparable or compatible with the method adopted for the capital under private control. In 1894 Harris pointed out the absurd result following from the registration of an existing business as a company :—

The firm A. B. have been assessed at £15,000 a year profit. One-fifth would be £3,000, multiplied by 15 = £45,000, at which they figure in the national wealth while they continue as a private firm. "One fine morning they register themselves under the Limited Liability Act. Their capital and profits are not altered in any way, but their value to the national wealth is immediately raised to £300,000, namely, twenty years' purchase on £15,000. How can it be possible that this simple act on the part of A. B. has increased the national wealth by £255,000 ? " He also refers to a purely brokerage business, land agency business, or other "professional" business where there is no capital in the business, but the wealthy partners keep their property invested in mortgages, or houses, or railways. They register for family reasons, and a like result is exhibited, by which he shows "what a very incorrect factor the income tax is for founding upon it any fundamental law for ascertaining capitalised wealth therefrom."

We are here facing the difficulty to which reference has already been made. The same producing capacity, by a mere transfer from the personally negotiable to the publicly negotiable class, alters in its character as national "wealth." The legal organisation for joint-stock control and the provision for limited liability are valuable "ingredients" which the State supplies, and their addition to personal elements of wealth convert the latter into legal and negotiable forms capable of being the subject of public subscription and exchange. Hence the rapid conversion of private business into joint-stock business turns potential capital into real capital and makes a striking, but unreal, advance in

national "wealth." When Giffen wrote, "private business" represented 180 millions and "companies" only 40 millions, whereas at the time of the *Economist* estimate they stood more nearly equal, say 200 millions each. Adopting *ten years'* purchase only, the Giffen method gives an increase from 760 millions to 2,400 millions, whereas Sir L. Chiozza Money's method would show 1,100 to 2,000 millions, and is much more successful in avoiding the fictitious advance due to mere change of legal form, although it probably exaggerated the earlier capital.

As shown in Chapter VI., there are certain trading losses to which no effect is given in the tax assessments. It is a matter for consideration whether these should be deducted from profits before capitalisation,¹ or whether we are to regard the number of years' purchase taken as already allowing for the risk of such loss. The market quotation for any stock taken individually always allows for the risk of loss *in that stock*, and one can apply such a rate to aggregated profits only where the risk still exists. But a *net* national profit is a *riskless* profit because realised losses have been *already* deducted, and the market rate of estimation should therefore be somewhat higher. On the whole, therefore, if the estimate used for capitalisation is derived from business values, it is sufficient to ignore the loss to which reference has been made.

Moreover, looked at from another point of view, the valuation included only profitable undertakings, and businesses which are losing money do not appear therein. But the fact that a loss has been made during the past three years does not make a concern *valueless*: the invested capital will generally command a price, though heavily depreciated, in the hope of recovery under different management, etc. No credit is taken for this asset. It is hardly necessary to go still further, and capitalise a *loss* as a deduction from realised profit.

"It may be noted, as affording some explanation of the discrepancy, . . . that, in the returns of public companies, the

¹ *Vide* Harris, S. J., 1894.

holdings of securities of other companies as investments leads to duplication of the total capital" (Report on Census of Production, 1907, p. 36).

This explanation fails on a point of fact. If a company has income from investments such income is taxed at the source, and is *excluded* from the profits of the company assessed to tax and capitalised on Giffen's method.

"The item 'houses' also . . . includes those premises held by public companies, . . . and therefore the value of these is counted twice in the estimate."—BERNARD MALLET, C.B., and H. C. STRUTT, "The Multiplier and Capital Wealth," *S. J.*, 1915.

This is erroneous, for a similar reason. The houses are taxed under Sch. A, and the assessment is deducted from profits before the latter are taxed under Sch. D.

Income of Non-income Tax paying Classes derived from Capital.

This is one of the most difficult and unsatisfactory of all the items. Giffen refers to it as "incomes of trading and professional persons below the income tax limit. . . . I have been guided by Mr. Dudley Baxter, who explained in his 'Essay on National Income' his mode of estimating the two kinds of income which lay intermediate between incomes comprised in the income tax assessment on the one side and the working class incomes on the other." Giffen includes a special addition in 1885 for income which escaped assessment when the limit of exemption was raised in 1876: one-fifth = £960,000.¹ Now Baxter, in the work quoted, takes his assumed number of taxpayers from the total upper and middle classes and estimates income at £60 per head, and also describes *one-quarter* as from capital,² or 23½ millions, but the following year in his estimate of national capital he gives 200 millions for this class.³ Giffen remarks that Baxter "considered this capital so small that it might be disregarded. Perhaps this would be going too far, consider-

¹ *Vide* p. 286.

² "National Income," p. 98.

³ "Taxation of the United Kingdom," p. 164.

ing the large amounts which must be invested in workmen's tools, and also the large number of small retail dealers there are throughout the country, the costermongers, green-grocers and the like, who have all some capital. . . ."¹ He then takes the income of the non-taxpaying class as 600 millions, and reckons a tenth as derived from capital, capitalising at five years' purchase.

So in 1875 the figure rose from £200,000,000 to £300,000,000 and in 1885 £335,000,000, with £14,400,000 for the £100 to £150 class now exempt. In 1885, Paget's Return followed Giffen's figure for 1878 without special comment.

In 1894, Harris referred to the £67,000,000 income capitalised at £335,000,000, and alleged that fully one-third of it was invested in Consols, which it had been proposed to exclude.

In 1896 Lord Milner added 25 per cent. to "trades and professions" for this class, and claimed to follow Giffen, referring all inquirers to him.² The *Economist* estimate in 1911 continued Giffen's 335 millions (not 349) of 1885, and made it 380 in 1895, 420 in 1905 and 450 in 1909, the changes in the exemption limit being ignored. Mr. Crammond recently gave 500 millions, being 100 millions at five years' purchase,³ so that the guesswork goes steadily upward, and one wonders whether the true nature of this item has not been lost sight of. Sir L. Chiozza Money is the only writer who has shown any reasonable restraint, and his estimate is 100 millions⁴ as a "liberal figure."

It must be clearly understood that this item does not really refer to the *savings* of the exempt classes. These savings are in savings banks and provident societies, all of which make investments, or in building societies which have a gross income from real property, and there is hardly any channel of savings which has not been fully represented in the *gross* income tax assessments already capitalised. Sixty

¹ "Essays in Finance," 1st Series, p. 170.

² R. C. on Agriculture, Q. 63,191. He considered it a very doubtful figure.

³ *S. J.*, July, 1914.

⁴ "Riches and Poverty," 1905.

millions of exempt income has already been accounted for at various rates, from fifteen years' purchase upwards, or say over 1,000 millions. What remains is the capital value of the stock in trade, implements and utensils, etc., of small shopkeepers, and workers like blacksmiths, etc. Any one familiar with the prices at which small businesses are taken over will hardly quarrel with an *average* capital of £200 for the shops and £100 for workshops. If we take the table on p. 63 of the *Statistical Journal*, 1910, giving the British Association Committee's estimate of the amount and distribution of income (other than wages) below the exemption limit, we shall find that working capital of this description is confined mainly to classes 25 to 28, 30 and 31. On the most liberal estimate of average capital for the numbers given in col. 4 it is difficult to account for more than £200,000,000. Approaching the matter in another way, we have in England and Wales about 534,000 shops and licensed houses, of which, speaking generally, those over £40 only will contain income tax payers, leaving 370,000 under £40. Adding for Scotland and Ireland, we may thus account for £80,000,000. Then 400,000 cases of workshops, etc., at an average of £100, and a million workers with tools, etc., of an average value of £10, bring the total to £130,000,000. There may also be some forms of investment which escape the gross income tax assessment, but altogether £200,000,000 is a sufficient estimate.

“ Furniture, Works of Art, etc.” (“ Movable Property yielding no Income ”).

For 1865-6 Baxter put the value at £300,000,000, but Giffen adopted half the capital value of houses and gave £500,000,000, and for 1875 £700,000,000, because there had been an advance since Porter, in “ The Progress of the Nation,” estimated one-third. Giffen regarded his figure as “ under the mark,” and for 1885 he continued the proportion, making the value £960,000,000.

Both Lord Milner and W. J. Harris considered this figure very high. The former preferred £600,000,000. The

House Duty figures were used by Harris¹ in detailed classes, to estimate the value :—

					Furniture
Less than £10 rental value (house)	.	.	.	.	£18
£10 to £15	„	„	.	.	£40
£15 to £20	„	„	.	.	£60
£20 to £25	„	„	.	.	£100
£25 to £30	„	„	.	.	£130

and so on, giving a total of £599,000,000, including £20,000,000 for Ireland.

Sir L. Chiozza Money used a general fraction—*one-sixth*—giving £500,000,000. He considered Giffen's figure unreasonable, because the messuages included business premises and land values. The *Economist*, though considering the figure too high for 1885, continues it for *each* valuation to the present time.

It has been brought into comparison with the Estate Duty classification. Chorlton remarks² that the amount passing in 1905-6 was six and one-third millions, and "unless the Commissioners of Inland Revenue are content to accept a merely nominal valuation, it seems to show that value is much over-estimated at 1,000 millions." Lord Milner considered the probate valuation of very little assistance in the matter, in view of the great under-valuation.³

Foreign Investments not included in Sch. C or Sch. D.

Giffen's misconceptions under this head have already been referred to.⁴ If allowance had been made for the "hidden" income from abroad the *actual* evasion might have been included here at a much lower figure. His figure really includes three items :—

(1) Income from abroad unidentified, but included in Sch. D assessments.

(2) Income from abroad, remitted and escaping tax.

(3) Income from abroad, not remitted and not liable.

The general question of evasion has been dealt with in

¹ *S. J.*, 1906.

² "Rating of Land Values," p. 36.

³ *R. C. on Agriculture*, Qs. 6,3115-8.

⁴ *Vide* p. 231.

Chapter VIII., but it is convenient for purposes of estimating national wealth to make a separate valuation for ordinary trades, and for (2) and (3) separately.

Under (1) Harris estimated that one-sixth of profits of public companies working from London might be taken as income from property abroad, which gave nearly six millions in 1885, and eleven millions in 1894.

The employments under Sch. E are of course not included. Giffen certainly considered the propriety of *deducting* the capital value of pensions and annuities "on the same principle that we omit the capital value of the interest of the debt," but concluded that as they were actually payments for services they were not a mortgage on the national resources.

Value of National and Local Property.

Giffen said that there was no property which ought more properly to come into the valuation. "... It includes the value of the land of dockyards and other Government establishments, the plant employed in them, the public buildings and furniture, and the waterworks, gasworks, public parks, embankments, and other possessions of local authorities." In 1878 he placed the municipal and local improvements at £300,000,000, and Government property at £100,000,000 (£400,000,000 in all). Ten years later he added the increase estimated during the period, without re-examining the basis, putting the total at £500,000,000.

The *Economist* continued this for 1905 at £605,000,000 and for 1909 at £630,000,000.

In 1905 Sir L. Chiozza Money estimated public property at £500,000,000 and local property at £1,150,000,000, but the National Debt and local loans being included as income elsewhere they were deducted from these items, giving a net value of £450,000,000. The estimate in detail included the navy (at a written-down value), £114,000,000, and works, £80,000,000; army works and military arsenals, £120,000,000; telegraphs and telephones (at fifteen years' purchase), £60,000,000; Suez Canal shares, £28,000,000, etc.; local property included 2,000,000 acres of common land,

£50,000,000, 22,000 miles of main roads and 97,000 miles of minor roads, £600,000,000 ; parks, bridges, sewers, lighting, etc., electric light works, gasworks, trams, waterworks, reservoirs, at a conservative figure, £500,000,000.

In so far as Giffen included waterworks, gasworks, and other industrial undertakings in this value, he had *already* included the greater part of their value, for he had capitalised the profits assessed to tax in his main valuation under Sch. D, and he had furthermore capitalised the "interest secured on rates." There could certainly be little, if any, more value to include separately. Sir L. Chiozza Money makes a similar double entry when, in addition to including the net value and also the full mortgage on the property, he capitalised the full profits under Sch. D for gasworks, electric light and power, trams, and waterworks,¹ but he rightly excluded the interest on rates.

It will be observed that there is a considerable difference between the two methods. It can be argued with great force that the greater part of the value of roads is already included in the value of the adjacent property. In so far as the property is directly served, it is enhanced in worth by the present value of the services rendered by roads which have been made and *paid for* in the past. One need not belong to the school of thought which expects a cheaper "hair-cut" to work out into an increased ground rent, before one admits that, so far as minor roads are concerned, their value must be mainly in the rents paid for the houses, etc., served. There is very probably a surplus or national value over and above the individual values in main roads, taken as a system, and an estimate is permissible on this account. Of course, it is open to argument that all individual values are improved by common wealth, such as parks, but it is improbable that the connection is so direct and full as in the case of sewers, for example. In the case of recent expenditure (for the sake of argument assumed to be outright), where rate of interest on outlay is a controlling feature, the tenant's rent must cover streets and sewers as much as it does the brickwork of the house itself. In the case of

¹ *Vide* the discussion on Mr. Mallet's paper, S. J., July, 1915.

expenditure long past, where actual outlay has ceased to command a rate of interest, we may consider a streetless, sewerless house with poor situation as upon the economic margin, for which no site rent is payable, and contrast it with a similar structure fully equipped, commanding a superior rent and a distinct site rent. It is difficult to escape the conclusion that a large part of public expenditure serving specific properties must be valued in the valuation of those properties.

On the whole, with this reservation, Sir L. Chiozza Money's estimate is probably the most reasonable that has been made, and further consideration of the matter is beyond the scope of this book, as it is in no way determinable from the official statistics.

A New Valuation on the lines indicated (1914 Figures).

Source of Income.

	Capital Value (million £).	Range of Doubt. + or -
(1) Lands	1,155	50
(2) Houses, etc.	3,330	150
(3) Other profits (Sch. A)	22	2
(4) Farmers' capital	340	40
(5) Sch. C, National Debt, etc.	1,148	49
(6) Railways in the United Kingdom	1,143	46
(7) Railways out of the United Kingdom	655	33
(8) Coal and other mines	179	18
(9) Ironworks	37	3
(10) Gasworks	182	18
(11) Waterworks, canals, and other concerns (Sch. A)	278	27
(12) Indian, colonial, and foreign securities.	621	56
(13) Coupons	383	19
(14) Other profits and interest	276	26
(15) Businesses not otherwise detailed	2,770	780
(16) Income accruing abroad and not re- mitted	400	200
Total under income tax	12,919	1,517

	Capital Value (million £).	Range of Doubt. + or -
Brought forward	12,919	1,517
(17) Income of non-income tax paying classes derived from capital	200	50
(18) Movable property, etc., not yielding income (furniture, etc.)	800	200
(19) Government and local property	400	100
Total valuation	14,319	1,867
or, in round figures	14,300	1,900
	millions.	

Details.

The following notes on the several items (figures in thousands of £) will serve to indicate briefly the computations involved (1914 statistics) on reference to the several relevant parts of this work:—

- (1) Gross, 52,284 — 500 rates in Scotland + 2,400 further value in Ireland = $54,200 \times 21$ y. p. per } mean result
Estate Duty valuations } ± 1 y. p.
Net, similarly $\times 25$ y. p.

Add 30 for building lands, per Estate Duty statistics $\times 30$.

- (2) Gross, 228,639 + 4,000 inter-quinquennial increase
— 2,200 rates in Scotland + 2,200 under-valuation in Ireland
= $232,600 \times 14$ y. p. } per Estate Duty valuations.
Net, similarly at 17.4 y. p. } Take mean result ± 150 .

- (3) 21 y. p. ± 20 (on restricted figures—*vide* p. 45).

- (5) and (6) 25 y. p. ± 1 y. p.

- (7) 20 y. p. ± 1 y. p.

- (8) $9\frac{1}{2}$ y. p. ± 1 y. p. (after deducting wear and tear allowance).

- (9) 9 y. p. ± 1 y. p.

- (10) and (11) 20 y. p. ± 2 y. p.

- (12) 22 y. p. ± 2 y. p.

- (13) 20 y. p. ± 1 y. p.

- (14) Interest (approx.), 12,000 $\times 22$ y. p. ± 2 y. p.

Other profits 5 y. p.

- (15) 483 millions gross — employments, wear and tear, and overcharges, 101 + evasion 17 } mean of
(Money's method), one half at 10 y. p. } results.
Division into public companies $\times 15$ y. p. and
persons and firms $\div 5 \times 15$ y. p. (Giffen's
method)

- (16) See chapter on "Evasion."

- (17), (18), (19) Not within the income tax (see text).

List of Valuations.

Some of the chief valuations ¹ that have been attempted are as follows :—

Date.	£000.			
1800 ..	1,750	(Great Britain).	Beeke	} <i>Vide</i> Giffen, "Growth of Capital," p. 110.
1812 ..	2,700	(United Kingdom).	Colquhoun	
1822 ..	2,500	"	Lowe	
1833 ..	3,600	"	Pablo de Pabrer.	
1852 ..	10,000	"	W. Farr (includes personal capital).	
1845 ..	4,000	"	} Giffen.	
1868 ..	6,115	"		
1875 ..	8,548	"		
1885 ..	10,037	"	} <i>Economist</i> , following Giffen (1911, p. 1,087).	
1896 ..	10,125	"		Milner.
1895 ..	10,663	"		
1905 ..	13,036	"	} Money. Giffen ² (50 per cent. added to 1885 figures, "Economic Inquiries," II. 362).	
1909 ..	13,986	"		
1902 ..	11,413	"		
1903 ..	15,000	"		
1905 ..	12,671	"	Fabian Society.	
1911 ..	13,716	(England and Wales).	E. Crammond.	
1912 ..	16,472	(United Kingdom).	E. Crammond, S. J., 1914.	
1914 ..	16,000	"	Money.	

Separate valuations for England and Wales, Scotland, and Ireland have been attempted on similar lines by Giffen and others, and by E. Crammond quite recently. They are subject, of course, to those serious limitations and difficulties which arise through attempts to assign income to the place of its actual assessment.³

¹ For comparisons with Germany, *vide* J. Ellis Barker, *Fortnightly Review*, May, 1909; Edgar Crammond, S. J., July, 1914.

² Giffen (*Quarterly Review*, July, 1909) quotes this figure, and also Mr. Lloyd George's speech *re* £3,500,000,000 increase since the 1894 Budget:—"He gave my own name as the authority for the £3,500,000,000 without indicating, however, that my estimate of an annual growth of capital amounting to £250,000,000 was a very old one and may no longer be correct when applied to the latest period." Such an indication was, however, hardly necessary; it was a plain inference from Giffen's estimate. This figure has been widely quoted (Cannan, *Quarterly Journal of Economics*, May, 1905, etc.).

³ *Vide* p. 237, and Chapter X. generally.

Branford¹ assumed £270,000,000 for Ireland in 1800, and suggested a "plutometric unit":—

1800	1	1845	2
1812	1·35	1865	3
1822	1·25	1875	4·25
1833	1·80	1885	5

ESTATE DUTY STATISTICS: THE "MULTIPLIER."

The statistics of Probate and Succession Duties and, since the complete scheme in 1894, also of the Estate Duties are available as an alternative means of computing the national capital. Analysis of these statistics is beyond the province of this work, and the matter is considered only so far as an attempted reconciliation of results with the other method is concerned, accepting the figures at their face value.

The initial presentation of the question took the form: How often does a given estate "pass" for duty? And the answer supplied the multiplier for the property passing in any one year to furnish an estimate of the whole.

In 1869 Baxter wrote:—"Personalty has often been estimated from the Probate Duties which are paid by property passing under wills or intestacies, amounting, in 1867, to £1,770,000, which at 2 per cent. average duty represents £88,000,000 of property passing under probate in that year. Taking the Inland Revenue calculation of an average cycle of thirty years for each devolution of property, we obtain a total personalty subject to Probate Duty as £2,640,000,000." Having arrived at £4,000,000,000 as the total personalty, mainly from income tax data, he remarked that £1,360,000,000 was left "for the personalty in settlement, or below Probate Duties, or which evades them" ("The Taxation of the United Kingdom," p. 164).

The fact that the Estate Duty statistics have often appeared almost stationary has been commented upon from time to time.² A stationary sum is not, however, necessarily

¹ "Calculation of National Resources, S. J., 1901, p. 387.

² J. Ellis Barker, *Nineteenth Century*, July, 1909; Goschen, "Increase of Moderate Incomes," S. J., 1887, p. 596.

inconsistent with increasing national wealth, if the death rate is becoming continuously lower, for the "multiplier" is continually changing. This fact leads towards the second form of the question: For each estate passing, how many are in existence which are not passing? It is obvious that for a satisfactory answer to this question some detailed examination of the death rate at different ages is necessary, for while at one stage, say infancy, the amount left is inconsiderable, the death rate may be comparatively high, and the number of estates not passing smaller than at another stage where, though estates are large, the death rate of that section is small.

In the American Statistical Association's reports (December, 1894) G. K. Holmes used the comparative death rate method for Massachusetts, and also accepted the French multiplier as 36.

In 1894 Mr. W. J. Harris, in a paper on "National Wealth and Economic Policy of Great Britain and France,"¹ computed the multiplier at 36, "because there was at that time no student of the subject in England, and the eminent economist in France, M. de Foville, had fixed on that rate." M. de Foville subsequently reduced it to 32 for France.

In 1896, before the R. C. on Agricultural Depression, Lord Milner proceeded on the hypothesis that the interval for succession was forty years,² but this was rather by way of escape from the difficulty of reconciling results than from any reasoned process. About this time, however, Giffen had used 45, derived apparently from the death rate for persons over twenty-one years of age.

In 1899 M. Coste and M. Besson, in a detailed treatment of the subject, put the French multiplier at 33.³ At a later date, however, M. Colson used 35 for France and also applied it to English estates.⁴

In 1905 Sir L. Chiozza Money, in "Riches and Poverty," adopted 30 as a multiplier, but did not pursue the subject

¹ *S. J.*, 1894.

² *Q.* 63,124, where De Foville's figure is discussed.

³ *Journal de la Société de Statistique de Paris*, 1899.

⁴ "Cours d'Economie Politique," II., p. 314.

very far. In 1906, however, before the S. C. on Income Tax, the question was discussed at some length.¹ Sir Henry Primrose considered the figure applicable to the large estates as nearer 25. Sir L. Chiozza Money again employed 30 as the "ordinary multiplier" used by statisticians, and referred to the deficient result. Dr. Bowley assumed a thirty-two years "succession interval." Sir T. A. Coghlan examined the theory of the multiplier, and suggested that, if the data existed, the value of the estates left at each age should be examined and combined on the lines of his Australian experience.

In 1906 Mr. W. J. Harris and the Rev. Kenneth A. Lake dealt in detail with the Estate Duty returns for the purpose of estimating the realisable wealth of the United Kingdom,² and adopted 29 as the multiplier. This was obtained by comparison with M. de Foville's figure for France, 32. Sir T. Coghlan, in criticism, did not consider their data for this result sufficient, and the discussion ranged around the rival points of view—length of inheritance and death rate. It was urged that the multiplier on the death rate might even be as much as 65! Mr. Bernard Mallet touched firmer ground when he defined the problem as the average survivorship of children over parents, or the "duration of a generation."

Mr. Harris hinted at an independent method, which consisted in finding the capital value of land by the income tax assessment, and dividing the result by the average value of land passing per annum, the quotient being for Great Britain 28 and for Scotland 26. It is quite clear that in so far as the estimates from estates are to be brought into *comparison* with those from incomes this method is not permissible. It was subsequently defended³ on the ground that, when the multiplier was obtained for one small section of private wealth, it was reasonable to use it for other sections where the data were not on such a comparable basis.⁴ The

¹ Qs. 53, etc., 504, 729, 1,179, 1,395, etc., p. 262.

² *S. J.*, 1906, p. 709.

³ *S. J.*, 1907, p. 131 (letter from the authors of the paper).

⁴ A comparison between Sch. A and Estate Duty figures was made by J. W. Tyler (*Transactions of Surveyors' Institute*, 1902-3, p. 77).

fallacy of taking the death rate even when restricted to persons over twenty-one was shown, and the necessity for paying regard to the death rates at particular ages at which the average value of the estates differed was also indicated.

In 1908 Mr. Bernard Mallet came really to grips with the subject.¹ After briefly reviewing former work, he approached the matter along the lines indicated by Sir T. Coghlan's criticism, and, with the assistance of new classifications provided by the Estate Duty Office, applied the actual death rate in five-year age groups to the actual estates passing in 1905 and in 1906 in each group. The estates were multiplied by the ratio of living to dead, and then the sum of all the classes divided by the sum of the estates of the year. The quotient was 24·06 for 1905 and 23·78 for 1906. He defined the problem as the ascertainment of "the length of the average period during which a unit of property is held by one person," and his results were curiously confirmed by an examination of 272 "succession duty" cases, taken in chronological order, which gave 26·9 for amounts and 24·0 for persons. There was an immediate recognition of the fact that, even if Mr. Mallet's multiplier was not right, all other previous multipliers were wrong. The trouble was, however, that it was unexpectedly low, and the resultant capital wealth for the United Kingdom was farther than ever from reconciliation with the results of Giffen's method. As Dr. Bowley remarked, they felt that somebody had robbed them of at least £2,000,000,000, and they were in full quest to find where it had gone. Several suggestions were forthcoming:—(1) That the new units of property or accretions continually being made do not come quickly into the multiplier, being practically a generation behind; (2) that very large sums passed *inter vivos* and avoided duty; (3) that estates were not valued at the full market value; (4) that the evidence of two years' estates was too narrow; (5) that there might be a fallacy in applying the general mortality tables to the property-owning classes; (6) that the Giffen estimates were exaggerated.

¹ "A Method of Estimating Capital Wealth from the Estate Duty Statistics," *S. J.*, 1908, p. 65.

Suggestion (1) did not survive examination ; (4) and (5) were held not to account for very much difference in result ; (3) was not pursued. It is obvious, however, that if we are careful to use for the factors in the tax capitalisation the *same* number of years' purchase for each subject as have on the average been employed for ascertaining estate values, there can be no *discrepancy* due to this cause, and both methods, if wrong, will be wrong to an equal extent.¹ With regard to (6), Giffen defended the estimate, and called for more evidence as to the amount of property which is not in individual hands, and for the establishment of a direct multiplier by this method for one clear species of property if the statistics could be obtained.

The general estimate of the present position may be given as in the recent edition of Porter's "Progress of the Nation,"² where the discrepancy between the two capitalisations is discussed :—

"The discrepancy may be explained in large measure by gifts before death, and various other methods of evading Death Duty. This supposition is strengthened by detailed examination. . . . The value of securities held in this country must be far greater than even thirty times £120,000,000, for it is quite certain that the stock of British and foreign railways, British and foreign Government securities, and British local loans would exceed £4,000,000,000, to say nothing of stocks and shares in trading and other concerns." Either "evasion is greater than is generally supposed, or estimates of wealth obtained by capitalising are too large—the truth probably lying somewhere between the two estimates."³

One recent writer, though grasping the idea that great estates are held by the older people, uses a high multiplier (60) and makes the Estate Duty figures convict the income tax of insufficiency!⁴

Two further contributions of importance remain to be noticed. In 1910 Mr. H. C. Strutt made an ingenious

¹ With the exception to be noticed later.

² P. 704.

³ For comment in similar terms, and probably by the same writer, see *Economist*, 1911, p. 1,088.

⁴ Zorn, *op. cit.* Vide also H. Morgan Browne (*New Liberal Review*, 1902), who uses 55.

comparison of the distribution of estates in France and the United Kingdom,¹ using recent details given by M. J. Séailles, from which it appears that the multiplier in France is about 39.

“Even, however, if we reduce it by 3 or 4, and take the multiplier as, say, 35, we are still faced with the enormous discrepancy between the respective multipliers for England and France, especially if we consider that both may (for the moment) be regarded as the measure of the movement of a unit of property from one person to another by reason of death. In spite of differences in institutions, in laws, and in customs, it is impossible to believe that across the Channel each franc of ‘fortune’ created or inherited remains on an average in the possession of one person for thirty-five years, while on this side each pound made or inherited to form an estate passes by death from one person to another in twenty-four years. In order to explain this discrepancy, let us adopt the hypothesis that the English people have the habit of behaving in the same way as the French do, and trace the consequences . . .”

Mr. Strutt then adjusts the computation for the “*dotation*” custom, altering the figures by the supposed *donationes inter vivos*, and the multiplier comes out at 35. He concludes that in a country where no *inter vivos* giving is practised the multiplier is much more than is implied in the previous definition; it is a real physical constant, but in a country like France it “ceases to represent the number of years during which a unit of property is held by one person.”

It is therefore a striking corollary from Mr. Strutt’s work that the leading explanation of the problem—gifts *inter vivos*—is no explanation at all. If they exist the total estate coming for duty is indeed lessened, but the effect disappears into the multiplier, which is increased in such a way that the *total wealth by this method is unaffected*. This is brought out in the paper by Mr. Mallet and Mr. Strutt in 1915 and is put to the test of exact mathematical demonstration and much elaborated. Its soundness is, however, not beyond question. It is based upon the assumption that the practice

¹ S. J., 1910, p. 634.

of making gifts *inter vivos* proceeds *indifferently* among the whole of certain age groups, and that of receiving such gifts *indifferently* among the whole of certain lower age groups. Death takes its toll impartially in each group, and among its victims givers and receivers are found respectively in the proportion they bear to the whole groups. But in fact the death toll in any age group is taken from *two sections*—those who have been in failing health and almost expect the event and those who are cut off by accident, or otherwise, unexpectedly in health. Now if, as it is quite reasonable to suppose, the habit of giving *inter vivos* is mainly confined to those who are failing, and they give generally to those in the lower age group who are not failing, then there is a diagonal distribution, and the upper section *most* affected by the death rate is giving to a lower section least affected. In other words, the fundamental assumption is not absolutely sound, and more fortune is going out of the multiplier computation at one stage than is coming into it at the other. The habit of giving *inter vivos* designedly to avoid death duties is therefore still to be urged as one of the solutions of this vexed question.¹

Another line of inquiry that has proved of value, and that had until recently hardly been touched upon, is the property upon which *settlement* Estate Duty has been paid. This furnishes a measure of the property which is being diverted from taking its normal place in the estates frequency, and therefore affects the multiplier. It is a matter for expert opinion as to the length of the respite it gives, and if it is sufficient to carry over two normal periods on an average its effect must be important.²

There must be a full deduction from the income capitalisation on account of all income which is taxable but not specifically assignable to individuals (although it attaches to them), as in the case of the discrepancy between aggregated assessments and the aggregate of individual income returns.³ In purchase value the ready, *full* dividend may

¹ *Vide* discussion on the paper before the Royal Statistical Society, S. J., July, 1915.

² *Vide* paper by Messrs. Mallet and Strutt, S. J., July, 1915.

³ *Vide* p. 337.

be more highly esteemed than the dividend which is as great actually, but part of which is reserved and used as an invested protective covering. For example :—A profit of £100 is made and distributed. It will sell, say, for £1,000, or ten years' purchase. If this factor is used alike for computing the Estate Duty value and also for capitalising the income tax assessment on £100, the results of the methods agree. But suppose £20 is reserved and £80 distributed ; the value of the £80 may not be £800 only, because of the reserve "backing," and it may not rise to the full £1,000 value, but it may sell for £960, or twelve years' purchase. Then the utmost that comes into Estate Duty figures is £960, but if a like factor is taken for the tax assessment it will give £1,200. Although it was all rightly regarded as *profit*, it has not been all assigned as *income*, and one must beware of assigning the *dividend* valuation to the whole income tax profit.

Then, again, corporate income must be liberally allowed for from the Corporation Duty returns and in other ways, and proper allowance should be made for the capital exhaustions not regarded in the assessments.¹ It is not within the scope of this book to examine the possibilities of the Estate Duty valuations, but it is quite certain that the whole matter is not yet at a deadlock.²

¹ *Vide* Chapter VI.

² On the whole subject, *vide* the paper by Mr. Mallet and Mr. Strutt, *S. J.*, July, 1915, where, upon the latest available statistics, the multiplier is raised to 28, and, following the criticism in discussion, to 30.

CHAPTER XII.

THE "NATIONAL INCOME."

It is outside the scope of this work to consider the meaning and true significance of the term "income," and still less to define "national income." The widest possible differences are found in economic conceptions in this respect. Professor Marshall calls the national income or dividend "the net sum total of things and services produced,"¹ and he also defines "social income." "Social income may be estimated by adding together the incomes of the individuals in the society in question, whether a nation or any other larger or smaller group of persons. But to reckon it directly is for most purposes simplest and best. Everything that is produced in the course of a year, every service rendered, every fresh utility brought about, is part of the national income. Thus, it includes the benefit derived from the advice of a physician, the pleasure got from hearing a professional singer." Obviously, no known money or statistical measure can really give all this; only things which are *exchanged*, not merely produced, count. We omit the immense productive services of wives in household duties, of amateur gardeners, of all who spend any effort, outside their main business of money-income or earning, in performing services or making things. If I get the services of a shoeblick, I add twopence to the national income, but if I black my own shoes and he *gives* me some tangible article or service, the money measure is the same as before, but the national wealth is greater. We are often told we must not reckon things twice, and this warning certainly covers all payments made to earn and keep income intact. If a man pays a housekeeper £1 a week for her services out of his income of £200 a year, they figure together in the national income at £252, but if he marries

¹ "Economics of Industry," p. 235.

her and continues his payment of £1 the national income shrinks by £52. It is imperative that this limitation of the income tax statistics as a representation of the "national dividend" be borne in mind.

The general and prevalent conception of income is that which is very closely measured by our statistics, viz., the products and services that are actually exchanged for money between individuals; it excludes the home services just as rigidly as it excludes "consumer's rent." A "consumer's rent" may be a very real conception for any one item of a man's expenditure, but it disappears when aggregated, and there is no such thing as an effective "consumer's rent" upon the expenditure of one's whole income.

A narrower conception limits the "income" to material production, and the sum of added values, which is very much the idea involved in the Census of Production term, "net output." A still narrower connotation treats it as produced not *for* man, but *by* man, so that true "income" is only to be found after deducting the income consumer's subsistences of various kinds.¹ This conception is very difficult to utilise and has little practical value.

Others, for particular purposes, like to consider only "home produced income," on which labour *in the country* itself has been expended, the receipts from abroad for interest, etc., being eliminated.

When all the different conceptions have been studied, we come back to the fact that the sum total of wages, salaries, profits, and interest presents a fairly comprehensible idea, free from important ambiguities, for ordinary comparative purposes.

Dr. Bowley has remarked that "it is doubtful whether a perfectly definite meaning can be attached to total national income; . . . the total is more correctly a total estimated value of services rendered to, or commodities consumed by, the members of the nation, together with the addition for savings. . . . In such a total are included the services of an agricultural labourer at £3 per month, and of a physician at

¹ Achille Loria, "The Economic Synthesis: A Study of the Laws of Income."

the same price for a short visit, the value of a day's sojourn at an hotel, an equal value of sixty quartern loaves of bread, or eighty ounces of tobacco. It is doubtful whether the same unit, £1 sterling, can in any real sense be used to measure such diverse and non-interchangeable services and commodities.¹

Sir L. Chiozza Money criticises this "confusion of thought" on the ground that it denies the function of money as a standard of value,² whereas money is daily used to measure diverse commodities. These are the values which in fact are measured by promiscuous exchange, and therefore it appears to be idle to talk of them as not "real," or as theoretical. But Sir L. Chiozza Money's criticism, though forceful and pertinent to a certain point, perhaps misses the subtlety of Dr. Bowley's statement.

The aggregate value of these products and services is only an aggregate of them in their existing relationships. These components have not an unchangeable value inherent in them, so that they will always total to the same amount however they may be arranged. Every value is merely a point of equilibrium, and if all the factors are rearranged the points of equilibrium may be totally different. If rich people took to eating ten times as much bread and the poor to eating none at all, if physicians were never wanted save by the poorest classes, if tobacco were only smoked by millionaires, the total of the services rendered might be quite changed. The fact of it is these services are not exchanged against each other freely—they move in cliques or layers and never meet for comparison. The marginal significance of £1 to a rich man is different from what it is to a poor man; therefore it is fallacious to say that a service that *is rendered only to rich men* is equal to and exchangeable for a *service that is rendered only to poor men*, simply because each costs £1 in money.

So Sir L. Chiozza Money, in his exposition of Dr. Bowley's fallacies, rather misses the point when he says: "We all of us receive our incomes in diverse commodities, but all those

¹ "Elementary Manual of Statistics."

² "The Nation's Wealth," p. 114.

commodities are interchangeable." The answer is that they are not *interchanged*. When he suggests that we "*can elect to transmute our incomes*" indifferently into all the forms of wealth, goods and services, the answer is, "*We don't.*"

The real significance of this appears if an aggregate value of services under present distribution is assumed to *remain the same aggregate* when quite differently distributed. Sir L. Chiozza Money has complete faith in the indestructibility of this aggregate. The existing total is often socialistically re-divided amongst the population per head with great assurance. But it is rather like saying that the same number of bricks must always make a building of the same cubic space.

Sir L. Chiozza Money elects to prove his point by the example of old age pensions: £12,000,000 is transferred from the well-to-do to the necessitous—"a part of the national dividend in goods and services has changed, while its expression in money has remained the same." Of course, because the measure of the transfer is in money, and each buys the services it wants to that value. But are the services equal? Suppose the transfer is not made in money, but the well-to-do sacrifice a number of doctors' visits which they value at this sum, and the poor receive these doctors' visits, which they value at a far less sum: the services (and dividend) remain the same. One really masks the true position by *varying* the services.

Giffen deals with socialistic divisions of the "income assessed to tax." "What is perhaps still more important, the classes engaged in this highly paid production very largely exchange among themselves." The income is not counted twice, but what we get is "merely the addition of the sums at which the different classes of the community exchange their services with each other": there is no general fund of production which can be divided; "it pleases those concerned to count them for so much."¹ Sir L. Chiozza Money remarks:—"It is sometimes argued that if the national dividend were better distributed part of it would disappear, since it consists of the valuation of

¹ S. J., 1885, p. 119.

services rendered to the well-to-do. This is another form of the fallacy which was entertained by Mr. Bowley."

It is obvious that if a ring of people like to call their services any given "value," there is no real obstacle. A., the great surgeon, performs an operation for B., the *prima donna*; B. goes to sing at a social function for C., the leading barrister; C. takes a brief for A. in a lawsuit. Each one is in the habit of selling the particular service to the community at £100, but on this occasion each sends in a bill for £1,000, which is paid, and up goes the national income by £2,700 above its true figure upon any reasonable exchange basis.

Sir L. Chiozza Money's exposition of the "fallacy" is on these lines:—A rich man may be a *malade imaginaire*, and pay high fees to a physician for doing nothing. If, however, the rich man had not drawn income in fractions from a number of poorer men, those poorer men would have had a larger purchasing power corresponding to the purchasing power wasted by the rich man; this they might equally have wasted. This ignores the vital point that exchanges are going on between people upon one plane for services at a valuation belonging to that plane and never brought into comparison with values on a lower plane. If there were equal redistribution, that plane of values would not exist. Professor Pigou considers that estimates of money income tend to exaggerate the higher ones.¹

W. H. Mallock and others make a deduction from the assessed income for "fancy values" of this character. Probably the change concerns commodities only to a very small extent and *personal* services to a much larger extent. But it is difficult to see at what point this process should stop, since values are dependent on the means of the "rings" that exchange them, right down the scale. It is true that some services must always be worth more to the community than others, and they will settle their own relative values. If, however, we had a redistribution of existing capital wealth, socialistically, many services would alter in value; no physician would get differential fees for identical services.

¹ "Wealth and Welfare," p. 27.

But it is a mistake to suppose that the only change would be a reduction of certain values and therefore a reduction in the aggregate. Certain services would rise in value because of the wider *effective demand*. No one can say what the new equilibrium would be—it is an insoluble problem, because only “broken arcs” of the demand and supply curves are known to us.

It is, however, as well to remember that we cannot divide up the aggregate and rearrange it to the same total, like a box of bricks. It is rather more like the cells of an organism. At the same time it is clearly possible to exaggerate the importance of this point,¹ and the figures we have are sufficiently stable and homogeneous in component exchange values for all ordinary purposes.

It may be well, nevertheless, to touch upon one or two peculiarities of our current conception.

(1) Houses are commonly rented by us, and even when not rented their value is expressed by “rentals.” Therefore it is instinctive to us to regard a residence occupied by its owner as a part of his income. Every one must have a residence, and A., with £400 a year salary and his house £40, keeps £400 intact, whereas B., who pays a rent, has only £360 to start in the same position as A.; it is only consistent to regard A.’s income as larger. But one has only to read current American literature upon taxation to see that it is by no means self-evident. Where houses are not so commonly rented but are generally owned the outlook is different—even ideas of valuation do not proceed primarily upon a capitalisation of rentals. “It is safe to say that not 1 per cent. of the assessing officials is familiar with the concept that capital value depends upon annual value. There is practically no tenant class in the United States.”² We do not regard the “annual value” of our furniture as part of our incomes, but if it were a general custom to hire

¹ See the chapter on “Non-distributable Income” in “The People’s Progress” (Ireson), in which the contention is unduly laboured and the “twice over” fallacy is distinctly present. He follows Leone Levi in deducting £100,000,000 as duplication of this character.

² Plehn, *Economic Journal*, 1910.

furniture by the year and a few people owned their furniture we should probably look at the matter differently and wish to take into account the value of it in their taxpaying capacity. If A. at Reading lets his furnished house to B. from Brighton, and takes a furnished house from C. at Torquay, who in turn lives in B.'s house, the real position is not changed, and yet the taxed "incomes" go up by the three rentals of furniture! Houses, park lands, etc., are the one form of enjoyment income (from things owned) that enters into our income conception, as statistically expressed.

(2) It is often said that when a rich man with £20,000 a year employs a secretary at £500, and the secretary employs a gardener at £50, it is fallacious to reckon the aggregate income at £20,550. If the £500 is disbursed in spending the income, and *not in order to get it*, and if the £50 is one way of spending or enjoying the income of £500 and it is not impossible to get the £500 without spending it, then in neither case should a deduction be made. The only true case for a deduction is when the disbursement is made to secure *getting* the income. In this instance the services of all three *exist* and are measured in money terms at these values.¹ One might as reasonably urge that there is only one Japanese box because all the smaller ones fit inside it, one within the other.

(3) The line between income and capital is often not very distinct. The tax statistics measure "annual profits and gains," and although one transaction or two or three may not give an income, but only an isolated or capital gain, it is merely a question of degree as to when "income" arises. A stamp dealer gets an income for performing services as a distributor, which appeal to a certain section and which they pay for; but the vendor of a single stamp makes a "profit" which is hardly for "services" in the same sense. It is fortunate that the distinction does roughly correspond with what the community regards as "services" in a national aggregate.

(4) The aggregation of individual incomes has no reference to "family" incomes, but it treats the income of husband

¹ Money, "The Nation's Wealth," p. 120.

and wife as one, except where personal labour is involved. A teacher with £150 per annum whose wife receives rents of £150 per annum is included as £300 in all, but if his wife had £150 from teaching they are both in the "exempt" class. It was stated in Parliament in 1908 that to allow the separate property of married women would involve a loss of £1,500,000 in duty.¹

"Taxable Income."

The figure that is required perhaps more often than any other for general comparative purposes is the true taxable income of liable persons, *i.e.*, the sum reviewed for tax purposes, deducting all sums not belonging to persons with incomes over the exemption limit, and also all the proper expenses of "gross" income, but *before* deducting the allowances which are merely taxing devices.² **The official tables have of late years been adapted to exhibit this important figure, but for the previous sixty years of the tax it cannot be obtained by inspection, and can be deduced only by careful research. Table G4 is designed to give a true comparison from 1842, linking up with the present official figures.**

When the true taxable income has been obtained it is still necessary for many purposes to make deductions for income not *distributable* to individuals (as distinct from income not *distributed* to individuals).

Sir Henry Primrose dealt with the question on these lines:—

"£728,000,000 is the aggregate disclosed. . . . The whole of that is by no means income enjoyed by individuals, which is what really concerns the Committee at the present time; you have to make rather large abatements for certain things. For instance, there is a large amount of income that is never distributed to individuals. Obviously, the very first thing is the income from the (a) investments of mutual life and fire insurance companies, with their reserve funds. That is somewhere about £10,000,000 or £12,000,000 a year. Then there are (b) all the reserve funds of companies *which are put aside in order to equalise dividends*. Then there is (c) the income of municipal property, (d) the income of

¹ Hansard, 192, col. 942.

² *Vide* p. 295.

Chancery funds, (e) of trust funds, (f) funds set aside to accumulate pending some contingency and so on, (g) the property of clubs, (h) institutions, (i) co-operative societies, and there is (j) the amount of income that is paid away to foreigners, because that would not come in. Taking all those things together and adding also—which I think we should have to do for this particular purpose—(k) the annual value (which we can tax, but which is not money) of freehold property in the occupation of the occupier which would probably not be treated as entering into the income on which the graduated rate would have to be paid . . . you get to at least £50,000,000. . . . That leaves us £678,000,000 as the income of individuals" (Q. 65, S. C. on Income Tax, 1906).

This was obviously a stringent elimination directed provisionally towards a certain object, and even for this object it did not receive universal acceptance. It is clearly not a sacrosanct estimate of non-personal income *for all purposes*, though the tendency is so to regard it.

Even for the purpose to which it was directed, in the event it proved that (k), the annual values of residences, were not excluded from the tax. This item alone is a considerable part of the whole. Then (b), the reserves, which *ex hypothesi* emerge later as dividends and are only temporarily held up, are strictly personal income, even on an individual basis.¹ Clearly, too, (d), (e), and (f) are only "in the reservoir," so to speak, and if income is continually going in so also it is continually emerging to individuals; the only real sum to be deducted is the *net increase* in the sums held up. When the income of a class as a whole is under consideration it is hardly necessary to exclude (a), the investments of mutual life and fire insurance companies, the collective investment being a substantial addition to their wealth. It has been observed elsewhere² that, although the bonuses and other payments to insured persons in excess of their actuarial death risk have not by law to be included in individual income statements, they are nevertheless a return of taxed interest, accumulated, and paid out in lump sums; and, except for a particular tax system, it is economically unsound to regard them as

¹ For a discussion of "reserves" and the circumstances in which they are not "individual incomes," see Chapter VIII.

² P. 304.

“non-personal.” The income of municipal property which remains in municipal ownership and is not used as a set-off against liability upon interest paid to individuals and insurance companies is very small in relation to the whole.¹

The income under (g) and (h), though belonging to a class, can hardly be regarded as personal. It must be remembered, however, that many so-called “clubs” have shareholding companies behind them, so that taxed income frequently emerges to individual use, while many institutions of a semi-philanthropic type or for the advancement of learning, etc., are exempted from tax, so that no great body of non-personal income remains to be deducted. The operations of industrial co-operative societies “except under Sch. A in respect of lands and buildings owned by the societies . . . do not result in the payment of any considerable amount of income tax into the Exchequer.”² The income from abroad paid to persons not resident in the United Kingdom should be deducted (under £2,000,000), and for some purposes the income produced here but paid to persons abroad may also be a proper deduction. We have little guide to the latter figure, but in the Financial Relations Returns the duty is officially estimated at £369,000 for Schs. C and D, equal to about £6,500,000 income, and £127,000 for Sch. E, largely for army and navy officers abroad, equal to another £2,000,000.³

It will be seen, therefore, that the sum deductible as “non-personal” depends upon the particular use for which the figures are destined; for “class” comparisons, or “national income” statements, it should be very small, but for inquiries into distribution in comparison with super-tax and abatement returns it may quite reasonably be larger. But the deductions given in Chapter VIII. for losses and other reasons should be made, of the order of £30,000,000, for practically all purposes, and when an addition is made for

¹ P. 294.

² D. C. on Income Tax, 1905, p. xxiv.

³ Based upon the affidavits for those deceased persons who had foreign domicile (1913 figures).

evasion the net deduction from the "taxable income" is small enough to be almost negligible.

The lead given by Sir H. Primrose is followed by Sir T. Whittaker,¹ who sets the deductions off against evasions, and is "disposed to think they do about balance." He deducts "local authorities" evidently under a misapprehension, for the profits and interest included under this head are distributed for the most part, like those of companies, and there is only a small proportion of property which is really deductible. Actually he adds £2,000,000 as a net difference on 1907 figures. He criticises W. H. Mallock and Sir L. Chiozza Money and takes a mid point. The former cuts the total down by "renewals" on a false basis, which is clearly indicated,² and the latter expands it by adding £85,000,000 for evasions and not subtracting over-assessments, depreciation, capital exhaustion, charities, etc. There is little doubt Sir T. Whittaker's method is very close to the truth.

Dr. Bowley has continued the deduction of £50,000,000 recently³ in connection with the problem of distribution, where it is of course necessary to make a full allowance. Messrs. Mallet and Strutt⁴ deduct £60,000,000 for 1913 for "impersonal income" when contrasting unearned income with capital wealth estimated from estate duty—a very legitimate case if the two figures are to be strictly comparable. The amount is intended to cover investments of insurance companies; a proportion of companies' reserve funds; municipal profits, such as those of waterworks, gas and electric light works, and tramways; the annual value of parochial and municipal buildings; Crown lands let to tenants; the investments and property of co-operative societies, clubs, monasteries, etc. In view of what has already been said as to some of these items, the allowance made, even for this purpose, errs, in my judgment, on the side of liberality.

"Home-produced" income.—Sir Thomas Whittaker

¹ "Ownership and Taxation of Land."

² *Vide* p. 179.

³ *Quarterly Journal of Economics*, February, 1914.

⁴ *S. J.*, 1915.

deducts £240,000,000 for 1907 from £2,040,000,000, making £1,800,000,000 "home-produced"; W. H. Mallock deducts £180,000,000 for 1910, as a net sum.

It is obvious that where these deductions are made nothing should be subtracted from taxable income in respect of income paid to foreigners, unless the object of inquiry is home-produced income retained at home.

"The better method is to exclude income drawn from without when we are thinking of the productivity of a country. . . . On the other hand, if we are considering the number of personal incomes of various amounts, we ought to include income from abroad and exclude income paid to non-residents, even though taxed in this country. I am not aware of any estimates as to the amount which should thus be excluded."—DR. BOWLEY, "The Measurement of Social Phenomena," p. 202.

Persons not resident in the United Kingdom are strictly speaking liable on all income arising here. Under the original practice from 1842 any who claimed exemption (and later abatement) in respect of such income were required to declare their *total* income from *every* source, and the granting of relief was dependent on the amount of such *total* income being within the statutory limit. In 1866 this practice was altered in consequence of an opinion of the Law Officers, and foreign residents were not required to include foreign income in their claims. It was thus possible for a millionaire to claim exemption on a small British dividend. This grant of exemption or abatement by reason of smallness of income was abolished in 1910, following a recommendation by the D. C. on Income Tax, 1905. There are certain exceptions in favour of Crown servants, missionaries and others, who may claim upon a statement of *total* incomes.¹

The following very useful summary is quoted, with some additions, from Sir Thomas Whittaker's "Taxation and Ownership of Property" down to 1907 inclusive. It requires the warning that the "exemption limit" has varied, so that the figures down columns 3 and 4 respectively are not comparable throughout, and this has been added to the table.

¹ 53rd Report, p. 101.

Estimates of the National Income.

Year.	Total Income.	Income above Tax Exemption Limit.	Income below Tax Exemption Limit.	Of those below Exemption Limit.		Authority.
				Inter-mediate Class.	Wage-earning Class.	
	£	£	£	£	£ (in millions).	
1688	43	—	—	—	—	Davenant and Gregory King.
1740	64	—	—	—	—	Decker.
1783	200	—	—	—	—	Giffen.
1800	230	—	—	—	78	Mulhall.
1812	431	—	—	—	—	Colquhoun.
1835-40	515	250	265	94	171	Giffen.
1851	646	272	374	132	242	Levi.
1852	440	220	220	—	—	W. Farr.
1864	814	370	444	—	—	Levi.
1867	961	423	538	120	418	Levi.
1867	814	396	418	94	324	Baxter.
1875	1,200	—	—	—	—	Giffen.
1881	1,168	577	591	143	448	Levi.
1883	1,270	602	668	118	550	Giffen.
1883	1,274	613	661	140	521	Levi.
1883	1,289	—	—	—	—	Mallet.
1888	1,300	660	640	—	—	Mallock.
1889	1,285	—	—	—	467	Mulhall.
1891	1,600	—	—	—	—	Bowley.
1903	1,750	—	—	—	—	Giffen.
1904	1,710	830	880	225	655	Money.
1907	1,800	880	920	220	700	Bowley.
1907	1,945	880	1,065	325	740	Bowley. §
1907	1,844	909	935	232	703	Money.
1907	1,964	672	1,292	—	—	Mallock.
1907	2,038	800	1,206	325	881	Whittaker.
1908	1,920	—	—	—	730	Fabian Society.
1914	2,100	—	—	—	—	Money.

* Exemption limit £150.

† Exemption limit £100.

‡ Exemption limit £160.

§ Revised estimate in 1913 before Report of Census of Production was published.

|| Including £32,000,000 income of Charities, Friendly Societies, and Local Authorities, which is excluded from the sub-divisions into which the total income is afterwards divided.

It is not within the scope of this book to discuss the methods of estimating the income of the classes below the income tax line, and readers are referred to the considerable literature upon this special subject.

A common rule-of-thumb method for estimating the

total income has been to double the income tax assessments. It is usually attributed to Baxter,¹ but was actually in use much earlier. In 1852 Farr assumed that "all the other people possess at least as much more income; and allowing for Ireland, and deducting for the interest of the National Debt, the income of the United Kingdom must be about £440,000,000, possessed by a population of $27\frac{1}{2}$ millions . . . if we capitalise at twenty-two and twenty-three years' purchase, it will make £10,000,000,000." (He estimated Ireland at £40,000,000 income, without detailed data.²) The rule has been applied by most writers without regard to the exemption limit changes from £150 to £100, back to £150, and then to £160.

Tests of Prosperity.

(1) **Wage Comparisons.**—Dr. Bowley uses the gross income figures (taxed and untaxed) for a comparison of its movement with that of wages (basing the latter by index numbers upon Dr. Giffen's figures for 1886) with a logarithmic graph; and then corrects for the change in money values by using Sauerbeck's index numbers, showing in the result that between 1860 and 1891 average wages have nearly doubled and average income has more than doubled, the actual difference not being very great ("Changes in Wages in the United Kingdom between 1860–1891").

G. Yule reproduces Dr. Bowley's index number (from *Economic Journal*, 1904), uncorrected, and also corrected by Sauerbeck, as test of prosperity, and to give the influence of economic factors ("Changes in Marriage and Birth Rates during the Past Half-century," *S. J.*, 1906, p. 104).

(2) **Use of "National Income" to Determine "Savings."**—"Members of the Government in recent speeches have placed the figure of annual savings of people in the United Kingdom at from 350 to 400 millions.

"I believe that these figures are obtained by first taking the aggregate of all money incomes of all individuals, now estimated to add up to £2,000,000,000, and then deducting from this the total estimated value of annual consumption of commodities in this kingdom, whether produced at home or imported. The difference between these two figures is erroneously, in my opinion, supposed to be the amount of annual saving.

"The fallacy in this is that the two figures are not *in pari*

¹ E.g., Giffen, "Economic Inquiries," II., p. 362.

² S. C. on Income Tax, 1852, Qs. 4,940, 4,952.

materiâ. The aggregate of individual incomes is *not* the national income for the year, but the annual national income is something very much smaller. This is because in the aggregate of individual money incomes the same real incomes are counted again and again as they circulate from hand to hand within the year. On the principle which I am criticising, viz., the addition of all individual incomes to find the national income, it would follow that the larger the interest on the National Debt the larger was the national income, which is absurd.

"The real national income—that annual flood of consumable commodities on and by which we all subsist—is much more near to be measured by the money value of goods produced and consumed within the kingdom plus the goods imported for consumption, which figure is immensely less than £2,200,000,000.

"Therefore, the amount of annual national savings has been very seriously over-estimated" (letter in the *Economist*, July 15, 1915).

This method would be roundabout, and certainly risky, because of the difficulty of determining the value of capital goods as distinguished from consumption goods produced in a year. Direct methods of estimating savings from the increase in new buildings and from public subscriptions are much more reliable than the difference between two totals, both large in relation to that difference.

CHAPTER XIII.

THE DISTRIBUTION OF INCOME AND THE NUMBER OF TAXPAYERS.

THE distribution of income is one of the most difficult but interesting practical problems for which the official statistics are utilised, and a great deal of work has been done to establish the number of taxpayers in different classes, or the changes in distribution, from time to time. The earliest income tax was assessed upon individual incomes as a whole, and, though inefficient as a taxing machine, yielded statistics which, so far as they were adequate, were thrown into an ideal form for this purpose (*vide* Appendix IV.). Since 1802 we have possessed no official statistics presented in this way until the super-tax, similarly assessed on the aggregate income of each person liable, gave details for incomes over £5,000 in 1911-12.¹ For in 1803 the "schedule" system was introduced, and the only tables then published bearing upon this problem were classifications of the separate assessments under Sch. D up to 1815. After the re-introduction of the tax in 1842 these classification tables were rendered annually in one form or another.²

In his "Thoughts on the Principles of Taxation with Reference to a Property Tax" (1848) Babbage deplored the absence of any criterion of distribution, and used Board of Trade figures, which showed the numbers of persons receiving incomes from funded property. He took a statement of the dividends of various amounts paid to 265,218 persons (arranged cumulatively) and divided a million "voters" in the same proportions, from which he concluded that 850,000 voters had incomes of less than £150 per annum. He

¹ *Vide* p. 338.

² *Vide* p. 238. In 1852 it was officially stated to be impossible to give the number of taxpayers under all schedules (S. C. on Income Tax, Q. 5, 136).

remarked naïvely :—" I am by no means disposed to accept this as the real law, or even as any very near approximation to it. I have employed the only data at present known."

In evidence before the S. C. on Income Tax, 1852, William Farr made a computation based upon the 1801 statistics,¹ accepted as adequate although the 1803 system was so much more productive. The average income for all taxpayers over £150 was £551 from that table, and he assumed that the same average was applicable to 1848; then dividing the total income assessed by that average he found 340,773 taxpayers "over £150."² His diagrammatic presentation of the grades was an interesting anticipation of Pareto's law.³ If this method were continued forward to 1868, the number at that date would be about 460,000. In accepting such results we have to consider :—(1) the doubtful reliability of the 1801 figures even in 1801, and the possibility of general under-statement of income; an examination of the remarkable differences in the original gradation from £150 to £200 does not inspire confidence, and since all except the poorest were taxed, it was not so much a question of omission of taxpayers as of under-statement of taxable income. Correct assessment of the smaller simple incomes was easier than any check upon the larger incomes derived from various sources, and the incentive to evasion was probably less. It is likely, therefore, that the greater part of the under-assessment was in the upper classes, and yet at the same time there was an *undue* accumulation of the taxpayers just *above* the £150 line, pointing to the fact that, so far from correct returns bringing a number of payers from below, this was probably an artificial or common assessment to which many were not really liable. We should have, in that way, a taxable income increased by perhaps 20 per cent., with no corresponding increase in the payers. On such a reckoning the 1848 number would have been 292,000 only. (2) The assumption that the *average* held good fifty years after.

¹ Appendix IV.

² Qs. 4,866, etc., and p. 463.

³ *Vide* p. 464. He obtained the intermediate £5 grades "by interpolating the logarithms by the method of finite differences."

Writing in 1857 on "The Pay of Ministers of the Crown,"¹ Farr estimated that there were 4,000 persons with incomes over £5,000, including 192 in Ireland. This also was based on the 1801 figures.

In 1868 Mr. Dudley Baxter ("National Income," Chap. III.) made an examination of the available income tax statistics for 1865-6 to ascertain the total income of persons with incomes over £100 per annum (the exemption limit at that time), the number of taxpayers, and their average income. He relied largely upon the classification of Sch. D assessments, and, although he stated (p. 30) that "the average income of each person in the United Kingdom who paid duty under Sch. D in 1855 was £288; in 1864 . . . it had risen to £314," the context shows that he was fully aware that these were only average *assessments*, and were not necessarily the average Sch. D income for each person coming under that schedule (some of them being assessed for several separate sources), and still less the average "income" of those persons. After obtaining a gross sum by additions for evasion, etc., he assumed that the proportion in the several stages of the classification for Sch. D would obtain also for the aggregate of all the schedules, as follows:—

Incomes.	Assessments.	Amount.	Number of Assessments. England and Wales.
£5,000 and upwards . . .	8,500	£126,157	7,500
£1,000 to £5,000 . . .	48,800	83,324	42,000
£300 to £1,000 . . .	178,300	87,723	150,000
£100 to £300 . . .	1,026,400	110,950	850,500
Total . . .	1,262,000	408,154	1,050,000

He pointed out the disturbing element, viz., the presence in the incomes above £5,000 of 400 companies with

¹ S. J., 1857, p. 102.

£30,000,000 income, and “if distributed to the individuals to which they belong a considerable number of persons would be raised out of each class into the next above, so that the £5,000 class would be enlarged in numbers more than sufficient to compensate for the loss of the assessments of companies. Partnerships, on the contrary, raise incomes into higher classes than the individual partners would reach.” So far as England and Wales are concerned, he regarded the general correctness of his results as confirmed by a return of houses assessed to House Duty in 1861-2,¹ summarised as follows :—

£200 (and upwards) rental	.	.	.	9,800
£100 to £200	.	.	.	32,800
£50 to £100	.	.	.	102,000
£20 to £50	.	.	.	375,400
£10 to £20	.	.	.	590,000
Total	.	.	.	1,110,000

The total was obtained by deducting from the total number of £10 houses in boroughs and counties in the electoral returns of 1866 (1,300,000), 50,000 for difference between rating and rental in the counties, and 140,000 occupied by the manual labour class, leaving 1,110,000 for occupation by upper and middle classes. The £10 to £20 class is therefore the balance unaccounted for. He considered that the 9,800 houses confirmed the 7,500 large incomes; “the 32,800 houses from £100 to £200 rent appear to tally with the 42,000 incomes from £1,000 to £5,000 and with the smaller houses occupied by the highest class.” In the incomes below £1,000 the number of lodgers, ladies, and inmates of family houses increases rapidly, so that the proportions of the houses below £100—viz., 102,000, 375,000 and 590,000—appear to confirm the number of incomes below £1,000—viz., 150,000, 850,000, and 1,000,000.

It will be seen that the chief weaknesses of this very broad treatment of the subject are: (1) the omission to ascertain or estimate the number of houses under £10 rental

¹ H. C. 428—1863.

in order to see whether they corresponded with the estimate of the manual labour class and verified the assumed correspondence between the £100 exemption limit and £10 rental ; and (2) the rather easy transference from " assessments " (arrived at upon a very doubtful basis) to actual " incomes."

He dealt separately with the number of taxpayers in an appendix, " the substance of which was communicated by Mr. Gripper, of the Inland Revenue, the highest authority in all statistics of that department." As this has been of some importance in subsequent literature, it is quoted here :—

" Number and Average Income of Income Tax Payers (England and Wales)."

" In calculating the number of income tax payers, it is necessary to remember that those who appear as paying on less than £100 a year have other income for which they appear in other schedules ; and that only one of these appearances ought to be taken into account.

" The information respecting the numbers charged is not given in all the Annual Reports, and the proportions must be taken from different years.

" Sch. B is given for 1858-9 in the Commons return, 300, 1860. The income charged to duty was £26,000,000 ; and the persons charged on incomes above £100 was 54,000 ; below £100, 207,000.

" Sch. C was found to be paid in 1850 on £27,000,000 by 204,000 persons. But examination of 21,000 accounts in Consols showed that only one-fourth were above £100 a year. Assuming this proportion for the rest—

" Sch. E in 1864 was charged on £17,487,000, paid by 97,000 persons, of whom 67,000 had more than £100 a year.

" Sch. D in 1864 was charged on £95,600,000 and paid by 297,000 persons, of whom 246,000 had above £100 a year.

" Sch. A is paid in the first instance by the occupiers, and no means exist of ascertaining the actual number of owners who ultimately bear it. The income charged in 1864 was £125,000,000, and this on the same scale of individual income as Sch. D would be paid by 379,000 persons, of whom 314,000 would have £100 a year.

" The total income for these schedules and years was £292,000,000 ; and the payers with more than £100 a year were 731,000.

" The number of payers under £100 a year was 504,000, of whom one-third at least appear also among the first 731,000, and

half the remainder, or one-third of the whole (169,000), will be the net number to be added.

"Hence the total number of taxpayers for the £292,000,000 will be 900,000, giving an income of £323 each, being nearly the same as the average for Sch. D.

"But, in consequence of the number of English companies, I have taken the average for England and Wales at only £306.

"In the net number so obtained there will be, besides those just mentioned, a large number of persons who appear twice or oftener, such as merchants and professional men assessed under Sch. D, who also pay more than £100 under Sch. A as landed proprietors or owners of houses; or under Sch. B on a farm; or under Sch. C as fundholders in British or colonial stocks. It is roughly estimated that these duplicate and triplicate appearances balance the number who are omitted through their assessments being made upon their partnership."

In his Report on "Wages and Earnings of the Working Classes" (1885) Professor Leone Levi comments on this as follows:—

"In a note in the appendix to Mr. Dudley Baxter's paper by *Mr. Gripper*, of the Inland Revenue, it is stated that the number of income tax payers under Sch. A *may be taken to be* divided in the same proportion as under Sch. D, and that the same may be said as to Schs. B, C, and E" (p. 50).

And again:—

"Mr. Gripper . . . arrived at the conclusion that the *number of persons* charged under Sch. D being then 297,000, the total number of income tax payers could be taken at 900,000, or three times as many. Adopting this method we come to the conclusion that the 110,000 persons charged with income tax under Sch. D in 1850-1 with incomes of £150 and upwards would represent 330,000 as the entire number of income tax payers; and that the 353,000 similarly charged in 1879-80 under Sch. D would represent 1,059,000 as the whole number of income tax payers" (p. 54).

One more progressive stage in the history of this legend may be given. Mr. W. H. Mallock¹ remarks:—

"Thus the number of separate individual assessments does not give us directly the actual number of separate incomes comprised, even under Schs. D and E. Attention was, however, called by

¹ "Statistical Monograph," 23 (May, 1912).

Professor Leone Levi, about thirty years ago, to a statement by Mr. Gripper in 1866 to the effect that the total number of individuals paying tax at that time, *so far as the department could ascertain, was as a matter of fact* about three times the number of assessments of 'persons' made under Sch. D. If we suppose that the same proportion has been maintained. . . . But owing to changes in the classification of incomes, . . . the total number *must during recent years be considerably more than three times* the number of separate assessments Sch. D under the heading of 'persons.' "

I have italicised some of the more significant improvements. The tendency to stress departmental authority is marked. Mr. Gripper, who seems to have had access to very little more in the way of statistics than what was then public property, apparently gave Mr. Baxter, in an unofficial way, a tentative basis of computation which, as a guess, was as likely to be right as any other, but not much more likely. The remark that, on the same scale as Sch. D, Sch. A *would be* paid by 379,000 persons becomes, with Professor Levi, "*may be taken to be* divided in the same proportion." The note does not comment upon the chance numerical relationship "three times," but this is put into the reference by Professor Levi and embellished by Mr. Mallock regardless of the changes in the relative importance of the schedules, and also of the fact that while Mr. Baxter dealt with the incomes above £100, Professor Levi referred to those above £150, and Mr. Mallock to those above £160. Moreover, while in the original note the total happened to be three times the *total* Sch. D assessments, Professor Levi applied the factor to the number of assessments *exceeding* £150 only. Both have ignored the fact that Baxter's computation was for England and Wales only, and also that Sch. D assessments have since included all the concerns under Sch. A, No. III.¹ Other considerations affecting the application of an old factor to recent years are given elsewhere.²

Professor Levi set out to compare the numbers in 1850-1 with those in 1879-80 and 1882-3. Incidentally (p. 6) he

¹ *Vide* p. 212.

² P. 439.

compares, in tabular form, the gross taxed income in 1866-7 and in 1882-3 with the percentage relationship to the total income of all persons, but he ignores the exemption limit change (£150 from £100). Then (on p. 48) he institutes a comparison between the classification of Sch. D assessments 1850-1 with that for 1879-80 (referring to the important differences, in the omission of companies, in the latter). The ordinary classification for 1879-80 published officially would have been of little value because it was one of *net* assessments, but he was specially furnished by the Inland Revenue Department with a classification of gross assessments similar to 1850-1 and to the present time—a return which is valuable for reference. The percentage borne by each class to the total number and total amount is given with a result which may be summarised as follows :—

under schedule D

	1850-1.		1879-80.	
	Per Cent. of Number.	Per Cent. of Amount.	Per Cent. of Number.	Per Cent. of Amount.
Incomes £150 to £500.	81·67	38·8	85·89	43·75
„ £500 to £3,000	16·58	32·7	12·68	27·67
„ above £3,000.	1·75	28·5	1·43	28·58

The inclusion of companies in 1850-1 must necessarily have affected the relative distribution, particularly in *amounts*; the 1850-1 average was £470, against £424 in 1880, but it hardly indicated “greater diffuseness of incomes” (p. 49) unless this factor is taken into account. On the basis of Mr. Gripper’s information, referred to above, he then finds the number of taxpayers for *each class* £100 to £200, £200 to £300, etc., by multiplying the assessments therein by 3 and reducing the result to a proportion of the population, from which he concludes that “it is a significant fact that whilst the number of persons in the receipt of incomes from £150 to £500 increased at the rate of 136 per cent., the number of persons in the receipt of incomes of £3,000

and upwards increased only at the rate of 86 per cent.”¹ The method is so doubtful, and the disturbing factors are so important, that this comparative result is, in my judgment, valueless.

Professor Levi proceeds to ascertain the average income per “family” (which he treats as equivalent to a “taxpayer”) in 1851 and 1879–80, arriving at the numbers as 330,000 and 1,060,000 respectively, by using the multiplier 3. “Now place against these numbers the income of each class at the respective period, adding 6 per cent. for the probable assessable income for Ireland in 1851.” He adds nothing, however, to the *number*, as divisor for Ireland, and gets the income per family £824, (44 per cent. of the whole). In 1879, by a similar process, the number of taxpayers in Great Britain is divided into the total gross income for the United Kingdom, with a quotient of £544 per family, or 49 per cent. of the total. He concludes that the incomes of taxpayers diminished 30 per cent., while those of the lower middle classes increased 37 per cent. and of the labouring classes 59 per cent. Such a method cannot, of course, give the actual average income, and, in so far as it may be urged that it gives a comparable result (having a common error), it may be pointed out that Ireland (omitted in the divisor) is a relatively constant figure in the income, and the disparity is therefore increased. If we employ these numbers with the actual *net* assessed income for Great Britain we get averages of £630 and £470 respectively.

Mr. Mallock builds upon Levi’s analysis:—“While, during the thirty years thus dealt with, the total income reviewed for assessment purposes had increased in the proportion of 100 to 212, the number of persons subject to income tax had increased in the proportion of 100 to 320, the result being that, while the average assessed income in 1851 had been more than £820, it was in 1881 not so much as £550.”²

Professor Levi made no use of the House Duty statistics,

¹ There is a very large error in the table on p. 49, the increase under the £500 class being shown as 308 per cent., owing to incorrect details.

² “Statistical Monograph,” 26.

and relied solely upon the classification of assessments and the rule-of-thumb method of multiplication by 3.

It will be seen that even when Baxter wrote, the proportion of one-third as applied to the Sch. D assessments resulted from the *assumption* that Sch. A duty was paid by as many taxpayers as Sch. D. But there is one fact that rendered this highly improbable. When the differential rate existed, only 1 per cent. of the liable Sch. A fell between £100 and £150 in the assessment,¹ whereas one-seventh of Sch. D and one-sixth of Sch. E came between these limits; and when abatements were introduced the income abated under Sch. A was far less than under Sch. D. The inference is of course that, given equal sums under each schedule, Sch. A was distributed amongst payers with the higher incomes to a greater extent than Sch. D, and therefore the *number* of payers was far fewer in proportion. Baxter's underlying assumption made the total numbers too high. Then in later years the total Sch. A sank relatively to the total Sch. D, and the assumption became still further removed from the facts. Reasons for the multiplication of assessments under Sch. D in recent years have been given in connection with the general classification tables. It is true, of course, that the number of liable owner-occupiers of houses has grown greatly, but the great majority are already *taxpayers under Schs. D and E*, and the incomes solely or predominantly under Sch. A, in the lower ranges (as judged from abatements), are still much smaller in proportion to the total Sch. A than those under Schs. D and E are to the totals of those schedules respectively.

In 1887 Goschen wrote upon the increase of moderate incomes, making comparisons merely for the ten years to 1885. He showed the relatively larger percentage which the lower Sch. D assessments had in the classification, and he also used the House Duty figures to show the greater increase in the medium-sized houses at that time.

So far as I am concerned, the chief utility of their investigations is that they obtained certain tables from the Inland

¹ Doubtless, by repayment, a larger percentage would be allowed, but the main argument is unaffected (*vide* p. 489).

Revenue which are not published elsewhere, and which furnish us with intermediate observations.

Another possible means of getting information as to the numbers at different times is to examine the effect of a change in the exemption limit (1853, 1875 and 1894) as to the amount of assessment affected and the number of taxpayers between certain fixed limits. An attempt at an approximation on these lines is given below :—

Number of Incomes, from £150 to £160 inclusive in 1894-5.

(1) The number of abatements claimed was (in thousands) :—

—	1893-4.	1894-5.	1895-6.
In assessment . . .	455	381	396
By repayment . . .	40	40	42
By schedule . . .	14	15	11
Total . . .	509	436	449

Number of incomes £150 to £400, 1893-4 . . . 509
Add average annual increase . . . 13

Estimated number in 1894-5 . . . 522
Less number of incomes £160 to £400 . . . 436

Difference, number of incomes £150 to £160 . . . 86
Add increased incentive to claim in 1894, 1
per cent. of total . . . 4

Add general failure to claim abatements, 5 per
cent. 5

95

But if no repairs allowance had been given in 1894-5, a number whose incomes were over £160 in 1893 did not exceed £160 in 1894-5, and thus no abatement was claimable (say) . . . 3

First result 98,000

(2) 39th Report, p. 105. Cost of concessions under the Finance Act, 1894, estimate for the change of exemption limit £133,800. If the average duty lost for each person is put at 8*d.* on £35, the number of persons is 114,000 (£35 was an average assessment of £155, less £120 abatement in 1893-4, which disappeared in 1894-5). As a fact the divisor should be rather larger owing to failure to claim some *portions* of the abatements.

Second result 110,000

(3) Appendix I. shows the loss in the gross assessment (thousand £) :—

Under Sch. D	8,800	±	700
Under Sch. E	2,280	±	150
Under Sch. C the loss is about	300	±	100
Under Sch. B	200	±	50
Under Sch. A, by a comparison of the total exemptions 1892-3, 1893-4, and 1894-5, and allowing for the repairs deduction	750	±	200
	12,330	±	1,200

At an average income £155 this represents 79,500 ± 7,740, to which must be added the repayment claims (on dividends, mortgage interest, etc.). The increased duty repaid (under exemptions (*vide* p. 117, 44th Report) between 1893-4 and 1895-6 was £89,000 at 8*d.* = £2,600,000 income. Repayments vary from the duty on a few pounds to the full limit, and an average of £80 would give 32,000 cases.

Third result 111,000

Average result, 106,000 persons.

Number of Incomes from £100 to £150 inclusive in 1876-7
(thousand £).

Sch. A exemptions increased by about	1,140	} (from re- ports by inspection). (see Appendix). (5·48 per cent. of the total net assessment).
" B " " "	1,500	
" C " " "	1,800	
" D " " "	20,000	
" E " " "	5,300	
Total	£29,740	

At an average income of £120 this represents 247,800 persons.

" " " £125 " 237,600 "

(*Note*.—In the statistics of repayments, 28th Report, p. 258, there is a difference indicating some 7,000 or 8,000 increased claims at least, so that the total is 245,000 to 255,000 persons.)

The 20th Report (p. 52) gives the number of Schs. D and E assessments as 244,000 fewer.

By the abatements 1875-6, 1876-7, and 1877-8 the number of incomes £100 to £300 was 160,000 more than the number from £150 to £400, so that we get the following result :—

£100 to £150 . . .	245,000 to 255,000 persons
£150 to £300 . . .	275,000 to 285,000 „
£300 to £400 . . .	85,000 to 95,000 „

by calculating from abatements and allowing for repayments and a 10 per cent. margin of unclaimed cases.

The incomes £100 to £150 represent 5·4 per cent. of the total income at this period.

1863-4 abatements . . .	196,313
<i>Add</i> repayments . . .	10,000
	206,313
Short, 20 per cent. . . .	40,000
Total	246,000 persons £100 to £200.

In 1855-6 we find the income charged at the lower rate (£100 to £150) was (thousand £) :—

Sch. A . . .	1,419
„ B . . .	3,376
„ C . . .	4
„ D . . .	9,882
„ E . . .	741 (part only)
	15,422
<i>Add</i> for remainder, Sch. E . .	2,242
	17,664 (5·65 per cent. of the total net assessment).

Under the pressure of the very high rate of duty it may be assumed that there was no great failure to claim the lower rate. At an average of £120 this is equal to 147,200 persons, and it may be said that *at least* 8,000 must have been allowed by schedule and repayment = 155,000 in all.

There is a good deal of evidence that the assessments were

almost stationary until 1861-2 ; the classification of assessments shows that the smaller incomes moved but little, and we may say that at 1860 there were 160,000 income tax payers in this class. At this date I estimate the number of incomes £100 to £200, by carrying back the 1863 abatements three years, in the same proportion as the assessments, at 221,000 as a maximum, and 200,000 as a minimum. The £150 to £200 incomes were therefore 50,000 to 60,000 in number. This is so few that an ordinary ratio of distribution fails to give the number that other methods indicate for the total number of taxpayers. We have two explanations (alternative or combined), viz. :—(a) administration was weak ; and (b) there were actually fewer at this level.

With regard to (a), all the indications are that the temporary character of the tax and the lack of statutory powers in connection with wage returns served to keep down to a minimum the numbers in the lowest ranges. But it is quite possible, and the indications of house distribution and assessments support the view, that there were at that time actually a smaller proportion of the whole with medium incomes.

Having arrived at these results for certain fixed points, it remains to be considered whether they throw any light upon the total number of taxpayers or upon other parts of the scale of incomes. Pareto's formula¹ is not perhaps seen at its best in this task of furnishing the aggregate from a small section at the extreme end, because it is at the ends that the modifications of the main index are most necessary. Applied to the classification of Sch. D assessments (with all its limitations) down to the exemption limit, the following are fairly good "fits" :—1909-10, 1.40 ; 1894-5, 1.52 ; 1879, 1.51 ; 1874, 1.4 (estimated) ; 1860-1, 1.31 ; 1850, 1.38. Everything considered, the changes are not great, but the indication is that in 1860 there was a smaller proportion of lower incomes.

The abatement index is higher than the assessment index at present, and it appears to have been higher throughout. If we relate the two, and adopt the same ratio for 1860-1, applying the resultant index to the 60,000 incomes £150 to £200, we get only about 250,000 taxpayers (above £150) in

¹ *Vide* p. 464.

all. But of course, if there is a considerable error in the 60,000 and the number should have been, say, 20 per cent. more, the total number of taxpayers might reach 300,000. The method is, however, a very risky one. Applied to the ascertained numbers £150 to £300 in 1875-6, we get as the total number of taxpayers (over £150) from 500,000 to 540,000.

Another method of working upon the problem is the use of the **statistics of houses**, Sch. A and House Duty. They furnish practically the only uniform and continuous record approximating to income distribution. It has been seen that Baxter attempted a rough "fit" for houses and incomes, and what Dr. Bowley has described as the "fascinating game of fitting taxpayers into houses" has been carried on in late years with enthusiasm by Sir L. Chiozza Money, Mr. Ireson, Mr. W. H. Mallock, and others. Mr. Mallock's work is voluminous and reiterated, but it shows such a definite bias in one direction that it is robbed of its value.

These figures may be used in two ways and for two purposes :—

(1) By reasoned examination of the house values for any given year to ascertain, absolutely, the number of taxpayers in that year either as a whole or in grades.

(2) By comparison of years, using houses as an index number to get the relative number of taxpayers over a long period.

In order to continue the investigation commenced above, I propose to deal with the second method first. So far as I am aware, it has not previously been used.

Classified House Duty statistics are available for about twenty years, prior to which we have—(1) figures for 1881 given by the Reports; (2) a table for 1874-5 obtained by Goschen from the Inland Revenue Department¹; (3) a return of ratings for electoral purposes, 1866² (all the foregoing relate to private houses); (4) a parliamentary return for 1860-1, giving *all* houses, including shops, etc.³ As the

¹ S. J., 1887.

² H. C. 279—1866 and 494—1866.

³ H. C. 428—1863.

value of shop premises has no direct relation to the incomes of the shopkeepers, and their distribution is actually quite different, they must be ignored ; we are here concerned, not with the *total* number of houses occupied by taxpayers, but with a number that will reflect the number of taxpayers. It is necessary, therefore, to split the 1860 figures into private houses and shops, etc., charged at the lower rate. This has been done by reference to (a) the known average value in each class in 1860 and in 1874, and (b) the percentage change in those averages and the average of *all* houses, so that the 1874 private houses have been written back to the 1860 basis in such a way as to give the required aggregate and average value.

The result is as follows :—

Houses (all kinds) (in thousands).

—	1874-5.		1891-2.		1900-1.		1911-2.	
Under £10	3,000·4	—	3,286·3	—	3,230·5	—	3,242·3	—
£10 to £15	590·4	—	1,122·7	—	1,568·7	—	2,151·5	—
£15 to £20	331·3	—	599·4	—	771·4	—	985·6	—
Total .	3,922·1	81·9	5,008·4	79·7	5,570·6	77·4	6,379·4	76·1
House Duty (£20 and over)	864·5	18·1	1,269·8	20·3	1,630·2	22·6	2,008·6	23·9
All . .	4,786·6	—	6,278·2	—	7,200·8	—	8,388·0	—

Private Houses charged to House Duty (in thousands).

—	1860-1 Esti- mated.	Per cent.	1874-5.	Per cent.	1881-2.	Per cent.	1899- 1900.	Per cent.	1909-10.	Per cent.
£20—£30 .	128·0	36·9	201·1	35·3	274·3	35·9	482·7	41·9	649·9	43·7
£30—£50 .	114·4	33	192·8	33·8	263·1	34·4	400·1	34·7	523·6	35·2
£50—£80 .	69·3	20	95·1	16·7	124·5	16·3	154·4	13·4	187·3	12·6
£80—£100 }			24·3	4·3	30·1	3·9	33·9	2·9	39	2·6
Over £100 .	35	11·1	56	9·8	71·9	9·5	80·8	7·1	87·2	5·9
	346·7	100	569·3	100	763·9	100	1,151·9	100	1,487·	100

Average Value of Private Houses (over £20 value).

	£		£
1851-2 .	48.3	1880-1 . . .	52.7
1855-6 .	48.4	1890-1 . . .	51.0
1860-1 .	49.1	1893-4 . . .	49.9
1865-6 .	50.5	1898-9 . . .	47.5
1870-1 .	52.9	1903-4 . . .	46.1
1875-6 .	53.4	1909-10 . . .	44.8
1876-7 .	54.6 (maximum)	1911-12 . . .	44.5

The year 1874-5 is the first for which we possess statistics of houses of all values. Taking a £30 dividing line, 1909-10 shows 56.1 per cent. as compared with 61.1 per cent. in 1874-5 above that value for houses assessed to House Duty, but of *all* houses the percentage above £30 in 1909-10 was 13.4 as compared with 11.05 in 1874-5. It is clear, therefore, that there has been a great movement from the class below £20 into the £20 to £30 range to bring about this result.

For the purpose of an index number the aggregate number of private houses of £28 value and upwards has been adopted. It is found that the above statistics for "over £30," treated as equivalent to incomes by Pareto's formula, answer perfectly and exhibit a constantly rising index—1860-1, 1.52; 1874-5, 1.57; 1881-2, 1.62; 1899, 1.73; and 1909-10, 1.86, indicating that an increasingly large proportion of the whole number of taxpayers is found in the ranges near the limit of exemption. The limit of £28 is adopted for the following reasons:—

(1) From a practical point of view it is believed to be about the limit corresponding with the exemption limit: £27 was adopted by a close observer, Mr. G. H. Blunden, with wide practical experience as a Revenue official, as long ago as 1896. Bearing in mind the large proportion borne by the figures for the metropolis to the whole country, I think the true figures cannot be much less than £28. It is not the value below which we may cease to find income tax payers that matters, but the value at which taxpayers and non-

taxpayers would be found in *equal* numbers that is significant.¹

(2) As an *index* number the result is not widely different from what might be found if £27 or £29 were adopted. Any error in estimating the number from £28 to £30 by working Pareto's formula from the known numbers at £30 is less than the error at a lower limit. It is for this reason also that the year 1909-10 is adopted; the classification became £20 to £41, without any intermediate step, in the succeeding years, and the difficulty of estimating the number over £28 is correspondingly great.

(3) This limit, looked at absolutely, gives results closer to the number of taxpayers, estimated officially by other methods, than any other limit.

(4) If a Pareto curve for incomes (by abatements) is superimposed upon a similar curve for houses, their directions may be different, but it will be found that on equating them at a point known to be reasonably probable (*viz.*, £40 rent = income £400 to £500) the position of the £160 point falls so as to give a number equal to the £28 houses.²

The numbers are as follows (in thousands):—1909-10, 951·7; 1894-5, 659; 1881-2, 547; 1874-5, 410; 1860-1, 242·7.

If we take the official estimate of the total number of taxpayers as in 1909-10 at 1,050,000 to 1,100,000, it may be said that this is the most reliable figure that has been obtainable *at any time*, because the great mass of incomes fall within the limits of abatement and error is confined to the following points:—(a) the number within this range who fail to claim; (b) the number of incomes above £700.

Now, with regard to (a), this until recent years was merely open to guesswork, but now it has become less important than ever because the percentage of non-claimants is very small. We have (a) very high rates of tax; (b) wide publicity and opportunity; and (c) a claim that runs contingently with earned income relief, the failure to claim which involves a crushing difference in tax burden. The incentive to claim the £70 abatement is now not really

¹ *Vide* p. 454 (sample investigation).

² *Vide* p. 457.

less than that to claim the £160, and a deficiency in the number of these "upper" claims ten years ago has been rapidly overhauled under these influences. I do not think the percentage of non-claimants is above 2 now, but it is evidently more liberally allowed for in the official figures.

(b) The numbers above are relatively smaller. We are helped to an extent by the super-tax figures, the earned income relief on incomes to £3,000, and the statistics of larger houses; and there is not a very wide scope for difference in numbers. There is much more scope for difference in *amounts* of total income at each higher stage. Altogether the official estimate is very closely hemmed in by important checks. The internal evidence of the tax itself gets less reliable as we go back, and in 1860 there is practically none. The application of this index number gives the following result (in thousands):—

Estimated Numbers of Taxpayers (thousands).

Year.	Incomes over £160.	Incomes over £150.
1860-1 . .	267.7 to 280.4	306.7 to 319.5
1874-5 . .	452.5 to 473.8	518.2 to 539.8
1881-2 . .	604 to 632.2	691.4 to 720.2
1894-5 . .	727 to 761.7	(add 106)= 833 to 867.7
1909-10 . .	1,050 to 1,100	1,202 to 1,253.0

This method as a first rough approximation has the following difficulties:—

(1) It gives the earlier years the "benefit" of all recent improvements in administration, and to some extent would lead to over-statement, especially in 1860-1.

(2) It assumes that the relation of rent to income *at the* £150 stage or thereabouts has not altered. If liable taxpayers with £160 per annum now live in £27 or £28 houses on the average, and if they now spend more of their income on rent than formerly, then in 1860 any one with £160 per annum may have had, on average, a lower rented house, and the number of taxpayers was *pro tanto* larger than the number given by this method. This was probably the case, so that

an addition should be made on this account in the earlier years. It will be observed that, so far as 1875-6 is concerned, this result is comparable with that obtained by Pareto's formula from the internal evidence of abatements.

(3) It assumes that the proportion of void houses or houses containing two taxpayers has not materially changed.

If we deduct from Baxter's estimate, 897,000 (over £100) in 1866, the incomes £100 to £150 (say 196,000, the mean of 1860 and 1874), we get about 700,000 incomes over £150 instead of about 420,000 by this method. Similarly, Levi's 1,060,000 in 1879-80 has to compare with about 650,000 by this index. Shearman¹ considered that the whole number of incomes over £150 in 1884 must have exceeded 600,000.

The Number of Taxpayers in Recent Years.

The following official estimates have been given recently in Parliament:—1,150,000 taxpayers in 1912-13. No definite statistics are available as to the total nor as to division of income.² A scientific classification of numbers and incomes in grades is not possible, and publication of official estimates might be misleading.³ 1,240,000 payers estimated for 1914-15, of whom only 164,000 will pay at the full rate.⁴

A comparison has been furnished⁵:—Income: 1903-4, £731,571,000; 1913-14, £935,000,000. Taxpayers: 1903-4, 950,000; 1913-14, 1,190,000. Estimated income per taxpayer: 1903-4, £770; 1913-14, £786. The percentage increase in average income was 2.1 and in taxpayers 25.3.⁶

Another reply gave the number of taxpayers as 1,100,000, of whom 950,000 were entitled to abatements or earned income relief, leaving 150,000 paying at the full rate, *rs. 2d.*⁷ The larger figure includes all persons who receive

¹ "Natural Taxation," p. 31. He made the statement that not less than 200,000 families live on investments alone, and his treatment of the Sch. D classification is not very thorough.

² Hansard, 59-16 (3.3.1914).

³ *Ibid.*, 63-73 (9.6.1914).

⁴ *Ibid.*, 62-60 (7.5.1914).

⁵ *Ibid.*, 13.5.1914; also 4.3.1914.

⁶ *Ibid.*, 63-85 (25.6.1914).

⁷ *Ibid.*, 53 (28.5.1913).

small dividends from which tax at 1s. 2d. has been deducted, but the exempt persons who fail to claim on small sums are not included.¹ The number of payers at the earned rate with incomes under £700 whose incomes were entirely earned was "not available."² The estimate of 1,100,000 payers was based upon figures given by Sir Henry Primrose, Professor Bowley, and Sir L. Chiozza Money to the Select Committee; it included dividend receivers with incomes over £160 per annum.³

Sir L. Chiozza Money has estimated the annual increase in taxpayers as 10,000.⁴ This, however, appears to be rather *under* the mark, the Sch. E assessments alone showing an annual increase of nearly 18,000 in fourteen years, and the abatements considerably exceed 10,000 also, although of course the whole increase cannot be assigned to new *taxpayers*.

Mr. W. H. Mallock throughout his investigations⁵ comes to the conclusion that the number of taxpayers is far higher than these estimates, and as a consequence the average income per taxpayer is much less than is generally supposed. He adopts a method which attempts to "fit" the taxpayers into the houses right down the scale by analysing the Schs. D and E classification tables⁶ and constructing individual incomes and then providing these taxpayers with houses of suitable value.

His chief assumptions in such fitting are:—

(1) Houses worth more than £20 a year are occupied mostly by persons with over £160 a year (except in London).

(2) With the exception of houses just over £20 and those over £200, the income of each occupier is about ten times the rent.

¹ Hansard, 54 (25.6.1913).

² *Ibid.*, 11 (30.9.1909).

³ Mr. Asquith to Mr. Fell (24.5.1909).

⁴ "Things that Matter," 1912, p. 4: "Recent Fall in Real Wages."

⁵ "The Nation as a Business Firm"; "Social Reform"; "The Possibilities of an Income Tax according to the Scheme of Pitt"; "Statistical Monographs," etc.

⁶ A typical method of using the Schs. D and E classification may be quoted as follows:—J. Ackland, "The Revolution in the Incidence of Taxation," *Contemporary Review*, 1901. Total D and E assessments, 816,154; allow three partners to a firm, and add 270,000 for "shareholders" in companies not otherwise assessed, and for persons assessed exclusively under other schedules—total, 1,200,000.

(3) (a) Houses £20 to £40 may be taken to equal incomes £160 to £400 ; (b) houses £40 to £80 may be taken to equal incomes £400 to £800 ; (c) houses £80 to £200 may be taken to equal incomes £800 to £5,000.

The great excess in (b) and (c) houses over Schs. D and E "incomes" in 1903-4 is referred to "over-building."¹ The general correspondence between the increase in "incomes" and of houses from 1901 to 1908, 23 per cent. in each case, "cannot be the result of chance ; it is evident there is actually a substantial coincidence" between the numbers. This proof is not complete, because it is only necessary to postulate an even distribution unchanged in each case to get "correspondence" between figures which are really unrelated except to a common factor like population. More especially does this apply to a *section* of the house values, say from £25 or £28 to £40.

The way in which the "assessments" are turned into individual incomes for this purpose has already been considered.² The treatment relies on a comparison between the *trends* of two sets of figures, one of which is hypothetical entirely, while the other is tangible in its terms but hypothetical (and quite improbable) at the point where it is equated to the other series, *i.e.*, the exemption limit.³ Mr. Mallock explains any excess of houses over assessments quite simply by the necessity for housing those who do not appear under the Schs. D and E tables, but he does not examine their adequacy independently. His conclusion is that in 1901 there were 1,200,000 and in 1909 1,470,000 taxpayers (allowance being made for unoccupied houses). The average income per taxpayer fell from £590 to £533. He deals specially with London to show that, on a proportionate scale, there should be 188,000 taxpayers, whereas there are 436,000 houses over £20, and his readjustment gives 330,000 taxpayers living in houses worth over £30 per annum ; but even with this allowance "the result remains substantially what it was before."

¹ *Vide* p. 33.

² P. 242.

³ "Statistical Monograph," No. 23.

In the work quoted Mr. Mallock does not use abatement figures, but in a previous treatment ¹ he gets over the real difficulty of reconciling his figures with them by stating that most people will think it "probable that of persons in a position to claim abatements, those who failed to do so amounted to one-fourth or perhaps one-third." The taxpayers on this occasion numbered 1,250,000 for 1905-6.

Sir L. Chiozza Money, in "Riches and Poverty," took the abatement figures, with an addition of 50,000 for non-claimants, as the number of taxpayers up to £700 income, and then added the higher incomes *only* by reference to the houses. Persons in the metropolis with incomes over £700 per annum were assumed to occupy dwellings of £60 annual value, and upwards, and outside the metropolis a £50 limit was adopted. The fact that some persons with smaller incomes occupied such houses was set against the "blocks of flats with high rentals," which were assessed in blocks and not in flats. An addition of 9,500 was made for Ireland, and as a net result the total incomes were put at 1,000,000 (1903-4 statistics). He definitely rejected the classification of assessments under Sch. D as unsuitable for these estimates. Dr. Cannan has said that Sir L. Chiozza Money's figures "hold the field," and they certainly came unscathed out of the examination by the Committee of 1906. By similar methods and on later figures Sir Henry Primrose arrived at 1,100,000; he allowed rather more for failure to claim abatements, and also for "residential shops" in the higher incomes.

These results were, however, subject to criticism outside:—

"The number of assessable incomes, according to the latest returns, in Great Britain alone (excluding Ireland) was roughly a million and a quarter."—JESSE QUAIL, "Investments of the

¹ *Nineteenth Century*, March, 1910. Readers interested are referred to criticisms by Dr. Bowley and Sir L. Chiozza Money which appeared in May, 1910. Mr. Mallock's method and detail have improved somewhat in the interval, but some of the criticisms are still valid in regard to his more recent work, "Social Reform" (*vide* Dr. Bowley's review in the *Economic Journal*, 1914, and my own review in the *Statistical Journal*—a plain statement of neglected factors which hardly arises from "a mood of appreciable acrimony" which Mr. Mallock subsequently ascribed to me in *The Times*).

Masses," *Contemporary Review*, April, 1907 (referred to by Sir L. Chiozza Money in the same review, June, 1907).

In his reply in August, 1907, Mr. Quail said: "My estimate . . . is probably below the mark, while Mr. Money's (1,000,000 to 1,050,000) is clearly very wide of it. For here again, as with the entries in the registers of railway shareholders, he overlooks collective assessments. Income tax on the profits of public companies is assessed and paid in the lump. . . . The incomes of many shareholders are below the tax limit, and they are entitled to exemption or abatement, but as a rule do not take the trouble to claim either. Curious that so ardent a collectivist should ignore these collective shareholdings and assessments."

Sir L. Chiozza Money's method is far sounder because it makes the most of the available evidence, and also because a considerable error in the assumptions does not greatly alter the results. The other method ignores the best evidence and relies on an assumption, which runs across the statistics at such a point that a fractional change makes very important differences. The assumption itself (as to the house value corresponding with the exemption limit) is a most difficult one to postulate with any degree of certitude. The limit varies very widely in different places, and even though it might be ascertained *exactly* for several towns, it would still be hard to weight the results properly for the whole kingdom. In a particular sample for a given place, especially where the town combines industrial and residential populations, the frequency dispersion is wide, and a considerable number of instances must be taken before any reliable inference can be drawn.

Careful and precise observations by my friend Mr. W. B. Cowcher, B.Litt., lead to the view that, at any given house value of ordinary amount, the relation between rent and income, expressed as a percentage of the latter, gives a continuous series and a single mode, and in a frequency curve exhibits a moderate skewness. The skewness, however, is not sufficient to affect this general proposition, viz., that where, at a certain house-value x , the number of such houses "exhibiting" a taxpayer (income £160 or over) is one-half the total number of houses at value x (*i.e.*, an even chance), the number of houses with a value $>x$ *not* containing tax-

payers with incomes £160 and over will be balanced by the number of houses value $< x$ "exhibiting" such taxpayers.

£160 Incomes and Equivalent Rentals. (1) Sample Opinion.

It is perhaps only due to Mr. Mallock that his minimum house value method should be met on its own ground rather than merely dismissed as unreliable. But, in default of real statistical evidence on a sufficiently comprehensive plan, it is necessary to fall back upon opinion, and few persons possess the necessary experience to give an opinion of real value, for even an intimate knowledge of either factor, rent or income, *separately* is of little use. Only those who are called upon constantly, as a business, to observe the definite *relationship* between them can give evidence of a semi-statistical character. I have discussed this point with many official acquaintances from time to time and put the question as to the value x at which the chance of an income £160 or more is an even one (outside London). The answers have been noted, and when presented as a sample investigation fairly cover the whole country by the experience represented. Graph IX. gives the result in a very symmetrical curve, and inspires confidence in the average, which is identical with the mode. The standard deviation is large enough to show that there are considerable differences in some localities. It can at any rate be fairly stated that the *true* statistical result cannot be different by more than £2, and this alone suffices to invalidate Mr. Mallock's results completely.

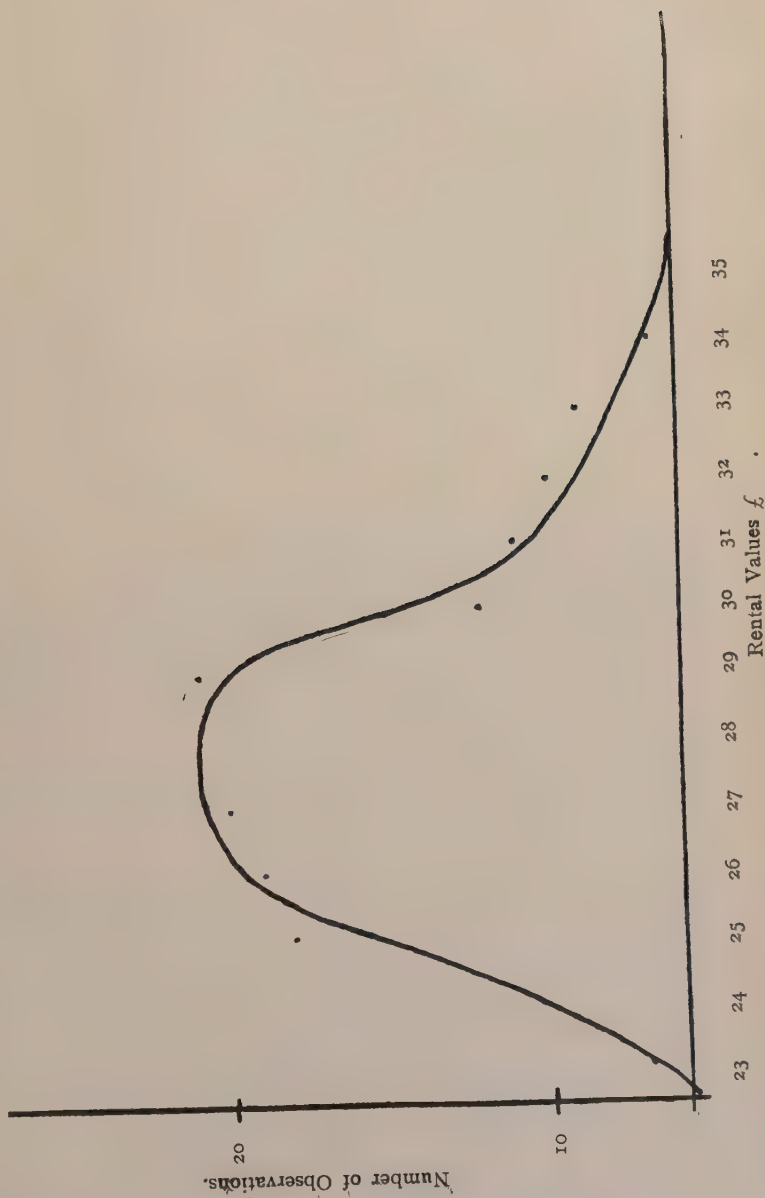
Sample Investigation.¹

£20 and under	.	.	2	£29	.	.	.	.	1
£23	.	.	1	£30	.	.	.	.	7
£25	.	.	6	£31	.	.	.	.	2
£26	.	.	2	£33	.	.	.	.	1
£27	.	.	9	£35	.	.	.	.	6
£28	.	.	2	Over £35	.	.	.	.	1

Total, 40 observations. Average, £28 10s. ; median, £28 ; mode, £28 and £29 (on the smoothed series).

¹ G. H. Blunden, an official observer, gave £27 as a reasoned estimate in 1896 (*S. J.*, 1896). One writer assumes the income tax class to begin at a rental as high as £40 (Zorn, "Incidence of the Income Tax").

GRAPH IX.
 £160 INCOME AND EQUIVALENT HOUSE RENTAL.
 SAMPLE OF OPINIONS.
 FREQUENCY
 CURVE.



At first sight the series seems very discontinuous. It was a natural tendency to express an opinion round about the nearest "five," £25, £30, and £35, and only the more careful chose mid-points. Moreover, as a physical fact, although £25, £26, £27, and £28 are all commonly found as house rents, £29 and £31 are rare. But if a value be assigned to the qualification "about" given by many replies, so that when an opinion was expressed "about £28" it could be taken that within the experience of the witness it would certainly fall in the range £26 to £30, and if a range of five points be given to each observation, the series becomes continuous, and the curve is smooth and approaches the normal. The average for this series is slightly lower, the standard deviation 3.9, and the co-efficient of dispersion 0.14.

It was agreed, without a dissentient, that the average for London would be *at least* £5 higher, and by "London" was intended a much larger area than is included under the official statistics as "metropolis." It should be remarked that the forty opinions expressed cover an experience of over 300 towns and areas, well extended over the kingdom.

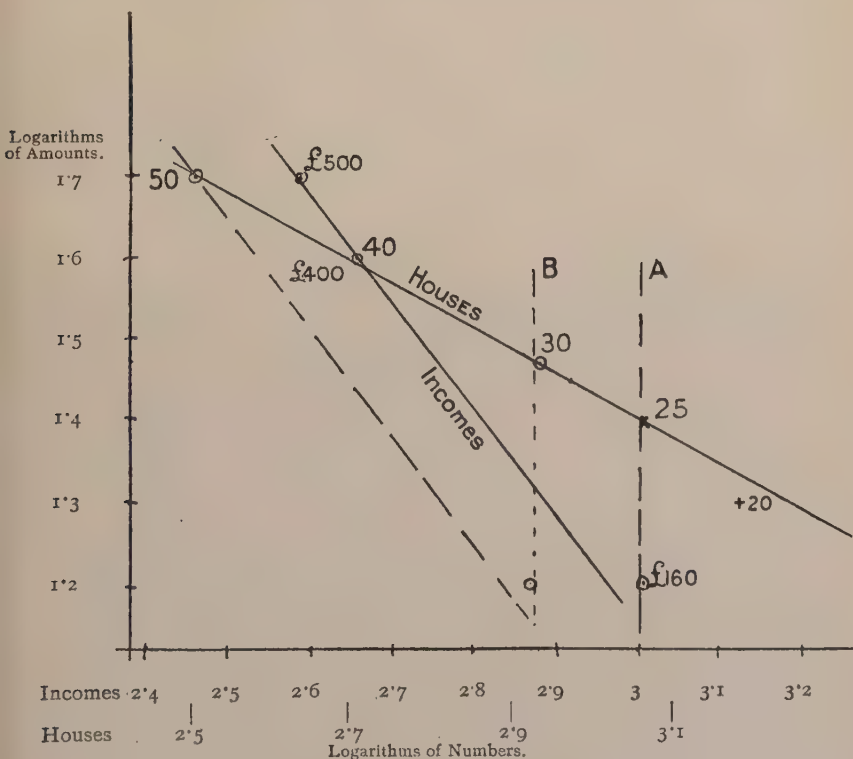
The number of houses falling between Mr. Mallock's minimum and the £27 or £28 shown by this sample is so large that it fully accounts for the difference between his estimates and the official figures.

(2) Rentals and Incomes £160—Test by Pareto's Formula. Graph X.

The smaller incomes bear a larger proportion than one-tenth in rent, and the higher incomes a smaller proportion. If the exact relations at any point of income were determined, the relations for any other point could be estimated closely from the Pareto distribution formula. The point at which one-tenth is reached is not exactly known, but it is almost certainly not lower than £400, nor higher than £500. If the house and income lines are made to cross at £400 income and £40 rent, the equivalent of £160 is just over £25 rent (see A). If the lines cross so that £500 income and £50 rent coincide, the equivalent of £160 income is about £30 (see B, moved parallel to A). (In this comparison the abso-

GRAPH X.

RELATION OF RENT TO INCOME AT £160 LIMIT. TEST BY
 PARETO'S LINE.



lute magnitudes are immaterial; only relative distributions are considered. The figures taken are for 1909-10, and from the lower incomes £160 to £400 has been deducted a minimum estimate for those who live in residential shops, not included in the house distribution. Houses are for Great Britain, incomes for the United Kingdom—a difference which for this purpose is immaterial.)

Number of Persons per House.—A consideration of this factor, which is frequently used in these inquiries, is outside the scope of this work.¹

Relation of Rent to Income.

In addition to the relationship at the particular point of liability to income tax, various estimates of relationship have been made from time to time for other levels of income. The most precise information relates to the working classes, who suffer inquiries more gladly than the middle and upper classes would do!

B. S. Rowntree ("Poverty: A Study of Town Life," p. 201) found that the percentage of income paid in rent became less as the *family* income increased:—

29 per cent.	for incomes under 18s.	(average 10s.)
18	" "	18s. to 20s. (" 19s.)
14	" "	31s. to 40s. (" 36s.)
12	" "	51s. to 60s. (" 55s. 8d.)
9	" "	over 60s. (" 74s.)

Dawson ("Unearned Increment," p. 88) quotes evidence for 25 per cent. to 28½ per cent. Giffen assumed one-seventh to one-eighth at £100 income (S. J., 1885).

Dr. Bowley's investigations at Reading showed (Journal of Royal Statistical Society, June, 1913):—

Incomes under 20s. per week.	Percentage paid in rent
" 25s. to 30s. "	" " 18·2
" 30s. to 40s. "	" " 14·5
" 40s. and over "	" " 7·3

¹ Giffen put 7 in houses over £20, 6 in houses £10 to £20 and 5½ in those under £10 (so as to allow for farmhouses, etc., not included). For Ireland he adds one-tenth above £20, one-seventh £10 to £20, and one-fifth below £10 (S. J., 1885). Zorn takes 4·9233 ("Incidence of the Income Tax"); Ackland, 5 (*Contemporary Review*, 1901).

The Report of the Land Inquiry Committee (Urban), p. 43, tabulates similar results for six other places.

It must not be supposed, however, that the percentage continues to fall from these points as we leave the working classes. There is a distinct break when we begin with the middle and salaried class, and with "appearances" to keep up and a smaller family a larger percentage is afforded about £150 per annum, from which point the percentage falls continuously.

In 1852 one witness before the S. C. on Income Tax used a factor of 10 for houses £150 in value, and said that occupants of £20 to £25 houses spent one-seventh or one-eighth of their incomes in rent.¹

Mr. Cowcher's researches² support the following general statements:—(1) The percentage of income paid for rent and for rates diminishes as the income increases; (2) owner-occupiers live in larger houses than tenants with the same amount of total income; (3) women householders pay a higher percentage in rent than tenants generally. But it was not clear that, as is generally supposed, professional men pay more than business men.

The first statement, which would be accepted by general experience, is placed beyond doubt statistically for the lower range of incomes by superimposing the Pareto lines for houses and for abatements. If, moreover, there is general agreement as to the precise relationship at any amount and the lines are equated at that point, not only is it difficult to escape from the conclusion as to the point upon the "house" line which must correspond with the exemption limit, £160 (Graph X.), but the diminution in the proportion of income paid for rent may also be clearly inferred.

Mr. Cowcher would suggest that if the proportion for incomes £200 to £250 be regarded as unity, the £300 to £400 class would be represented by .8, £500 to £750 by .7, and £1,000 to £1,500 by .5.

¹ Qs. 5,383-4.

² *Vide* p. 453.

We have seen that Sir L. Chiozza Money, in "Riches and Poverty," puts the £700 income against the £60 house in London and £50 house in the country.¹

W. H. Mallock ("Pitt's Income Tax Scheme," *Nineteenth Century*, March, 1910) uses the following estimates :—

To £10 rent	Jointly earned incomes under £115
£10—£15	£115—£155 (average, £145)
£15—£30 (average, £20)	£155—£200
£30—£50 (average, £34)	£200—£400
£50—£60 (average, £54)	£400—£700
£60—£100	£700—£1,400
£100—£150	£1,400—£2,000
£150—£200	£2,000—£3,000
£200—£300	£3,000—£5,000
Over £300	Over £5,000

In classifying the houses over £60 in value, in order to "fit in" the incomes over £700, W. H. Mallock ("Pitt's Income Tax Scheme," *Nineteenth Century*, 1910, p. 479) gives, for 1905, the following :—

Range of Rents.	Mr. Mallock's Numbers (p. 479).	All Premises charged to House Duty (50th Re- port, p. 173).	Private Dwelling- houses only, charged to House Duty (p. 177).
£60—£100	122,000	150,548	98,507
£100—£150	53,000	68,599	45,360
£150—£200	19,000	25,949	16,709
£200—£300	15,000	20,922	13,582
Over £300	14,900	19,291	11,143

It is thus not easy to see what the basis of Mr. Mallock's figures is, but he says he has taken "the number of all premises with rentals over £60" and deducted "according to the proportions shown in the Statistical Abstract such as are other than residential." His division appears to be roughly :—

$$\frac{\text{Private houses}}{\text{All houses charged to House Duty}} \times \begin{matrix} \text{No. of houses, shops, etc.,} \\ \text{of £60—£100.} \end{matrix}$$

¹ See also S. C. on Income Tax, 1906, p. 64.

This is not a clear explanation, but he seems to have omitted to notice that the exact number of private houses is given officially, and that persons reside on all the other classes of houses charged to duty, and it is not clear whether he has estimated for Ireland or not.

Mr. Mallock further gives the following classification (for 1905), after remarking "dwellings over shops, such as are occupied by minor tradesmen, are not treated as dwellings, but are numbered amongst business premises. . . . I add the approximate additions to be made on account of Ireland and residential shops":—

Range of Rental Value.	Number of Houses in Great Britain (Official Figures).	Addition in respect of Residential Shops.	Actual Figures from 50th Report.
Under £10 . . .	3,150,000	—	3,148,779
£10—£15 . . .	1,925,000	300,000	{ 1,915,248
£15—£30 (average rent, £20). . .	1,780,000	—	{ 58,737
£30—£50 (average rent, £34). . .	560,000	—	{ 924,815
£50—£60 (average rent, £54). . .	141,000	—	{ 604,418
			{ 10,795
			{ 489,611
			{ 4,341
	7,556,000	300,000	119,917
	7,856,000		7,276,661
Residential shops, hotels, farmhouses, lodging-houses			361,787
			7,638,448

The chief points arising in this comparison are:—(1) The supposition that residential shops, estimated at 300,000, between £10 to £15 are not included in the official figures is incorrect; (2) no estimate has been made for the farmhouses below £20 in value, not included in the official figures; (3) the figures are hardly "official," as the classification of House Duty cases fails to correspond; (4) no estimate is made for void property; (5) the

"shops" actually included are reckoned at their *full* value for residential purposes (in considering the character of income to be accommodated). Thus a house and shop at £60 is treated the same as a private house of the same value.

At this point the "remarkable closeness" to which he alludes in considering the number of incomes he has to accommodate disappears.—W. H. MALLOCK, "Pitt's Income Tax Scheme," *Nineteenth Century*, March, 1910, p. 479.

Zorn puts the rent per household income of £200 at £40 2s., and for £125 at £30 13s. ("Incidence of the Income Tax").

It is obvious that the higher the income the less the precise correspondence is likely to be between its amount and house rent. Some lay great stress on this lack of relation,¹ and it was dealt with before the S. C. on Income Tax, 1906,² but somewhat inconclusively because the examples given were chosen to prove the point, and also because *total* incomes were not quoted, but only Sch. D assessments with no division for partners' true shares. Even in this unpromising selection, however, a mode begins to be discernible—about 5 per cent. for the incomes round about £4,000, falling to 4 per cent. and less for incomes of larger amount. In these altitudes there is no doubt a wide variation. But it is strange that for lower incomes the variation gets less as the income increases. A feature that emerged from Mr. Cowcher's observations was that in groups "up to £500," "£500 to £1,000," and "over £1,000" the standard deviation became progressively less, and this seems to have a clear economic bearing on the question of elasticity of demand for houses.

Number of Assessments Schs. D and E and Number of Taxpayers.

The use of the classification of assessments, for the purpose of ascertaining the number of taxpayers, by Baxter, Levi, Mallock, and others, has already been commented upon, and the chief difficulties are also referred to under

¹ Hallett Fry, *Financial Review of Reviews*, March, 1909.

² Qs. 934, etc., and Appendix III. to Evidence.

several heads in Chapter VI. The matter turns upon three points—(1) eliminating duplicates amongst the personal assessments ; (2) assigning property and dividends to “ persons who are also personally assessed under Schs. D and E ; (3) determining the number of those whose means consist *solely* of property and shares.

Under the second head the following statistical investigation is of interest :—

If one can form any estimate of the number of people who live entirely upon their property or dividends, without remunerated occupation, and of their aggregate income, it would be clear that the remainder of Sch. A and Sch. D (public companies, etc.) belongs, as “ other income,” to the salaried or “ earned income ” class. It is proceeding upon false lines to say that if a certain aggregate assessment under Sch. D or Sch. E is paid by a certain number of persons the other aggregates are paid by a similar number in proportion, and to treat them all as *different* taxpayers. With a new class of relief upon unearned income, for “ small incomes ” under £500, statistics may be forthcoming to show the total unearned income belonging to such taxpayers. At present it is not possible to state what proportion of the salaried classes have “ other income.” I have for some time past made a series of observations, and have come to the conclusion that civil servants and teachers have perhaps the highest proportion, although, in view of their adequate pension provisions, it might have been thought that the incentive to thrift would be least amongst them. Out of 591 elementary school teachers, with salaries from £160 to £500, 209, or 35·3 per cent., had *no other income*. The percentage was progressively less as the salary increased :—Under £200, 38·3 ; between £200 and £300, 33·4 ; and above £300, 30·3. There was no definite relation between the amount of other income when graded finely. In broad groups it was a constant *amount* (£29) up to £300 salary and £51 above—approximating to equality *in proportion* for the two groups. A special mode at £200 stood out above the average, viz., £35, probably due to the fact that for many assistant teachers this was a maximum salary at which they had

stood for some years, with no prospects beyond. The average for all cases *with* other income was £32, and for all the cases, with or without other income, £20·6. Observation of salaries less than £160, but coming within the income tax because of the other income, indicated much larger proportions, progressively greater as the salaries became *less*. The reason is obvious: only the larger cases are included, the smaller ones not being sufficient to bring the total under observation, and the smaller the salary the larger the unearned income required to bring the total to view. I have excellent reason for estimating that the Civil Service would show, similarly, that about 65 per cent. have some other means, even if only a little bank deposit interest. Of over 3,000 bank officials of all grades 54·4 per cent. had other income, but the percentage amongst those with salaries over £200 was much higher. Although stock-brokers' clerks might be expected perhaps to have great facilities and inducements for investment, the percentage amongst them with means is comparatively low.

Pareto's Law.

This law has been described as a "law for graduating incomes." It is strictly speaking an empirical formula which fits the distribution of incomes in different countries with success, and which may therefore be used with confidence as an interpolation formula, but with less reliability for extending a known distribution into lower or higher scales of income where distribution is unknown. "It breaks down at the extremities . . . and gives an infinite number of persons with no incomes, and one person with an infinite income."¹ If the formula is given for middle class incomes it will be found to require modification for the highest or for the lowest incomes. Dr. Bowley has explained its use²

¹ S. C. on Income Tax, Q. 1,165.

² *Ibid.*, Qs. 1,154-1,300, and Appendices VI., VII., and IX.; also *Quarterly Journal of Economics*, February, 1914, and "The Measurement of Social Phenomena." *Vide* also my article on "A New Illustration of Pareto's Law," S. J., 1914.

for the United Kingdom and furnished the following formulæ :—

$N = \frac{A}{x^a}$. (N = number of persons having a greater income than x units per head.)

Number at $\pounds x = \frac{aA}{x^{a+1}}$. (A and a are constants.)

Aggregate income above $\pounds x = \pounds \frac{Aa}{a-1} \cdot \frac{1}{x^{a-1}}$.

Average income above $\pounds x = \pounds \frac{a}{a-1} \cdot x$.

In the case where $a = 1.5$, the average income between $\pounds x_1 - x_2$ is $\pounds \frac{3x_1x_2}{x_1 + \sqrt{x_1x_2} + x_2}$.

CHAPTER XIV.

DIVISION OF PROPERTY AND INCOME INTO CATEGORIES.

MAYO-SMITH, in quoting the general income tax tables for 1896-7, remarks that it is impossible to trace "income to its source, either as derived from capital or from labour, from land or personal property, from accumulated wealth or from trade capital."¹ Nevertheless, categories have frequently been attempted, and the chief lines of division may here be noted briefly and without any attempt to refer to all the long-forgotten excursions into this province.

(I) Differentiation : " Earned " and " Unearned,"² " Labour and Capital," etc.

From the very inception of the income tax there have always been numerous writers upon the division of income into categories, "permanent and precarious," "spontaneous" and "industrial," "earned and unearned." Some of these have been in reference to proposed reforms of the system in the interests of just taxation, while others have been investigations into the relative burdens borne by the respective classes, or into the rate of increase of each of the classes.

With regard to the former, the argument and pleading do not belong strictly to this work, and we are concerned only with the distributions and statistical distinctions made. The reader is referred to the discussions themselves for further details.³

¹ "Statistics and Economics," p. 428.

² *Vide* my article "The Meaning of Unearned Income," *Economic Journal*, June, 1915.

³ *Vide, inter alia*, Giffen, "Essays in Finance," 2nd Series, pp. 394, etc.; "Capital and Labour," *S. J.*, 1887, p. 208; "Capital and Exertion Incomes"—estimated division on Giffen's model. Farr,

The leading protagonist for reform along these lines was J. G. Hubbard, and an abstract of his scheme is appended to show his division in 1885.

Sch. A was divided, one-fourth going to "capitalists" and not subject to an allowance for repairs. Sch. D is assigned one-half to capital and one-half to earned profits.

Discussion on the Income Tax, with proposed Bill
(Right Hon. J. G. Hubbard, M.P., 1885).

Statement, showing the yield of a 5*d.* income tax levied on the assessments of 1881-2, compared with the estimated yield of a 6*d.* income tax levied under the provisions of the Income Tax Administration Amendment Bill :—

Schedule.	Yield of 5 <i>d.</i> Tax (£000).	Assess- ment, 1881-2 (£000).	Rate and Amount of Abatements (£000).	Revised Assess- ment (£000).	Yield at 6 <i>d.</i> (£000).	Plus or Minus (£000).
A :						
Owners .	2,709	130,013	27,736	102,277	2,557	- 152
Capitalists	902	43,337	—	43,338	1,084	+ 182
	3,611	173,350	27,736 (16 per cent.)	145,615	3,641	
B . . .	321	—	—	—	321	
C . . .	834	39,993	—	39,993	998	+ 164
D :						
Interest on capital.	4,809	115,428	—	115,428	2,885	
Industrial gains .		115,428	1 st 38,476	76,952	1,924	
E . . .	568	27,285	1 st 9,095	18,190	455	- 113
Total .	10,143	—	—	—	10,224	+ 81

Analyses of income tax assessments to show the increase in the income from capital and from salaries and wages of superin-

"On the Equitable Taxation of Property," S. J., 1853. Booth, "On the Principles of an Income Tax," S. J., 1860. Sargent, "Fallacy of the Warburton Argument," S. J., 1861. Sargent, "An Undiscriminating Income Tax reconsidered, S. J., 1862.

tendence respectively have also been made. Giffen gave the following summary (in millions):—

Year.	From Capital.	From Salaries.	Total.
	£	£	£
1843 . .	188½	93½	282
1862 . .	252½	107½	360
1881 . .	407	177	584

In this computation he makes the following estimates:—

Sch. A.—Assigned to capital, although “it is well known that not even in *Sch. A* is the income obtained without exertion and care, and some risk of loss, which are entitled to remuneration.”

Sch. B.—£25 to capital in 1881 (£22½ in 1862 and 20 in 1843) with the note: “Interest on 500 millions of capital in 1881 at 5 per cent. In my paper on accumulations of capital I estimated agricultural capital at a larger sum than this; but since then there has been some loss of agricultural capital, and if a larger sum were taken, the rate of interest used in the calculation for the present purpose should be less.” To “salaries, etc.,” he assigns £36, £38½, and £44 respectively. The totals of the two categories bear no discoverable relation to the *Sch. B* assessments.

Sch. C.—Assigned wholly to “capital.”

Sch. E.—Assigned wholly to “salaries, etc.”

Sch. D.—Includes mines, etc. (concerns No. III., *Sch. A*) throughout, the *Sch. A* figures excluding them throughout.

Part I., “Trades and Professions,” is divided between the two:—

1843 . . .	£46½ salaries.	. . .	£29½ capital
1862 . . .	£49 „ . . .	. . .	£32 „
1881 . . .	£100 „ . . .	. . .	£64 „

and the 1881 division is explained as follows:—“Estimating that the income here is worth four years’ purchase, and that it may be capitalised at that rate, and then allowing that this capital earns 10 per cent., the rest being wages of superintendence, I have rather exaggerated than depreciated the estimate for capital employed in trades and professions, my estimate being rather more than that of Mr. Dudley Baxter in his famous paper. . . .” Part II., “Public Companies,” is assigned wholly to capital, “although the vigilance necessary and the risk attendant on the business are really most serious, and part of the so-called profit is . . . strictly remuneration of labour.”

Ireland.—An estimate is made for 1843, the total gross income under all schedules thus estimated being about £30,000,000.

It will be observed that, although he endeavoured to make all the necessary qualifications, Giffen omitted to notice that, while the Schs. D and E figures for 1843 and 1881 are comparable (incomes of £150 and upwards), the year 1861-2 includes incomes £100 to £150, and is therefore *not* comparable with the others. In his subsequent remarks, however, where he concludes that the capitalist classes have advanced in forty years 110 per cent., working income in income tax returns 100 per cent., and working income not in income tax returns 160 per cent., this error has no effect ("Economic Inquiries," I., pp. 415-19).

Dr. Bowley, before the S. C. on Income Tax, 1906, assigned Sch. A and Sch. C, one-half of Sch. D (£221,000,000), and the whole of Sch. D evasion (£35,000,000) to the unearned class.¹ The income of public companies alone, however, without the unearned income assessed on persons and firms, was £267,000,000, or £46,000,000 more. The present statistics of differentiation do not enable an exact figure to be given, and it can only be said that earned income must be considerably in excess of £234,000,000 out of £866,000,000.

Messrs. Mallet and Strutt allocated to unearned income as follows²:—Under Sch. A, all except the income of clergy from landed property; under Sch. B, a small amount for interest on loans to farmers (£60,000); under Sch. C, all except small payments to clergy, etc.; under Sch. D, the whole of public companies' profits, but no part of the income of persons and firms except £5,000,000 for charges such as royalties, interest on loans, annuities, etc.; under Sch. E, a small amount for interest on loans. The allowance of £5,000,000 for charges of this character appears to me to be very small, but otherwise the method is a distinct improvement on earlier estimates.

Productive and Unproductive Income.—W. R. Lawson, quoting the 1900-1 figures, remarked:—"Of the 594 millions on which the tax was paid, a large proportion represented non-productive income, rents of land and houses, annuities, interests and dividends, salaries of Government and other public officials. The only income adding unquestionably to the wealth of the nation was that under Schs. B and D, namely, farming and business

¹ Appendix, p. 221.

² *S. J.*, July, 1915.

profits. These formed less than 360 millions out of a total of 594 millions" ("Two Record Budgets, 1860 and 1903," *Fortnightly Review*, May, 1903).

(2) Division of Capital into Real and Personal Property.

This division has generally been attempted in order to ascertain the relative burden of taxation on each class, and Goschen's Report on Local Taxation, with his use of tax statistics to show the increase in real property, has been widely quoted. Sir R. H. Inglis Palgrave (on "Local Taxation") and Leone Levi (*S. J.*, 1884) have followed similar methods.

Baxter's division was "landed incomes," "personalty incomes," and "industrial incomes," but his treatment did not involve any actual analysis of total incomes.

This division for ascertaining incidence bristles with difficulties. For example, it is not a decided point as to whether land tax is a "tax," or whether redeemed land tax should be considered. How far rates are a burden *on* the thing which happens to be used as the *measure* of what shall be charged is an unsettled problem, and in view of the fact that taxes are paid by *persons*, and not by *things*, is probably not capable of ultimate solution.

In Lord Milner's view this distinction between realty and personalty is entirely a legal one, without economic significance, and is therefore to be distinguished from the distinction between rateable and non-rateable property.

The Treasury classification in 1885 (H. C. 345—"Paget's Return: Imperial Taxation on Real and Realised Personal Property") assigned the income from quarries and fishings, *one-half* of the income from mines and canals, and *one-fifth* of the income from waterworks, to "real property." For personal property the allocation included farming stock and implements, public debt, Indian and colonial funds, iron-works, gasworks, "other" public companies, foreign and colonial securities, railways (in and out of the United Kingdom), mortgages on rates, other profits, one-fifth of trades and professions, and the respective balances of mines, canals, and waterworks. With regard to the three last named, the

principle of division was based upon ownership—"where concerns are carried on either by companies or in partnership the interests of the shareholders or partners are deemed to be personal estate and are so treated for taxation. On the other hand, where . . . owned by individuals, they are regarded as real estate, and similarly where an interest in such concerns is retained by the owner by means of the reservation of rents or royalties, such interest is deemed to be real estate and is taxed accordingly." Railways, ironworks, and gasworks were taken as personal property, although partly *realty* in value, because for Imperial taxation they were so treated (*i.e.*, Sch. D instead of Sch. A and Probate Duty instead of Succession Duty).

Since 1900 and until recently the tax statistics have distinguished the assessments according to ownership, and it is clear that on this basis of division for mines the assignment to realty is too great, and for waterworks the one-fifth is also far in excess of the facts.

"Out of 1899 tax (income tax), £18,200,000, 1899-00, £4,000,000 is derived from professional success and should more correctly be charged as taxes not incidental to property" ("British Finance in the Nineteenth Century," *Edinburgh Review*, 1899).

(3) Division into Rateable and Non-rateable Property.

Lord Milner's classification before the R. C. on Agriculture, 1896,¹ may be taken as typical:—

Assigned *wholly* to rateable property: Lands, houses, fishings, etc.

Assigned *wholly* to non-rateable property: Farmers' capital, Sch. C securities, railways out of the United Kingdom, foreign and colonial securities and interest, public companies, capital in trades and professions.

Assigned partly to one and partly to the other class: Quarries, mines, ironworks, gasworks, salt springs, waterworks, canals, markets, tolls, etc., railways.

¹ Appendix, p. 583. Criticised adversely, as not giving true incidence, by J. King, *Quarterly Journal of Economics*, February, 1900; quoted by Mayo-Smith, "Statistics and Economics," p. 411.

The amount assigned in each case to rateable value was not a fixed proportion of the income tax assessments, but the actual sum *rated* under each head, the balance only being assigned to the non-rateable class.

(4) **Division into Classes (by Amounts of Incomes) to Test Relative Tax Burdens.**

Dudley Baxter and Leone Levi made a division of this character,¹ but it was very broad, and the *whole* of the income assessed to tax was taken as belonging to the upper and middle classes in contrast to the manual labour class. But more detailed division has been attempted, generally by means of the Schs. D and E classification.

Such statements as that attributed to Joseph Chamberlain (in his earlier days) that the £10,000 income paid 3 or 4 per cent. in taxation and the working man 6 per cent. were usually arrived at by examination of typical cases rather than by aggregates.

(5) **Income "directly" and "indirectly" Taxed.**

The proportion of income taxed on "direct declaration"² and that based on assessment by "external marks," or, as they say in America, from "view," is sometimes discussed, particularly in relation to foreign schemes of "global" taxation. The description "declaration of taxpayer unnecessary" is somewhat misleading as applied to "Sch. A." It is true that the income can be assessed without a return and does not depend upon one, but an owner-occupier makes a "declaration"; only so far as his mortgagee or his ground landlord are concerned is it correctly described.

¹ "Taxation of the United Kingdom," 1869, and "Wages and Earnings of the Working Classes," 1867.

² Kennan, "Income Taxation," 1910, p. 70 (where there is some slight confusion in the names of the schedules); W. H. Price, "The British Income Tax," *Quarterly Journal of Economics*, February, 1906.

APPENDIX I.

GROSS ASSESSMENTS, SCHS. D AND E, 1894-5, 1876-7, AND 1853-4.

METHODS BY WHICH THE EFFECTS OF THE CHANGES IN THE EXEMPTION LIMIT HAVE BEEN ESTIMATED FOR THE TABLES IN CHAPTERS VI. AND VII.

WHEN the Finance Act, 1894, raised the exemption limit from £150 to £160 a considerable sum automatically fell out of the gross assessments under Schs. D and E, but, for reasons already stated, the totals under Schs. A, B, and C were unaffected. (The abatement on incomes below £400 was raised from £120 to £160, but this had no effect upon gross assessments under any of the schedules.) There is no direct information upon the amount lost, for although it is stated that the *cost*, in duty at 8*d.* in the £, was by way of allowance from the assessment £78,000, and by way of repayment £55,800 (39th Report, p. 105), these details would convey nothing in terms of gross assessment even if the separate schedules were given. The following typical cases will show the nature of the changes effected :—

Particulars of Income, etc.	Before the Change.			After the Change.		
	Gross.	Abate- ment.	Net.	Gross.	Abate- ment.	Net.
	£	£	£	£	£	£
1. Wages, £145 ; other property, £10 . . .	145	120	25	—	—	—
2. Wages, £155 (and total income) . . .	155	120	35	—	—	—
3. Wages, £180	180	120	60	180	160	20
4. Wages, £145 (and total income) . . .	—	—	—	—	—	—
5. Property, £140 ; interest, £20	20	possibly * 20 or nil	nil or 20	—	—	—
6. Property, £80 ; interest, £75	75	from 40 up to 75	nil to 35	—	—	—
7. Property, £100 ; interest, £75	75	from 20 up to 75	nil to 55	75	from 60 up to 75	nil to 15
8. Property, £160 ; interest, £5	5	possibly 5 or nil	nil to 5	5	possibly 5 or nil	nil to 5
9. Salary, £150 (assessed Sch. E and abated) ; interest, £5	5	—	5	—	—	—
10. Salary, £120 (assessed Sch. E and abated) ; interest, £25	25	—	25	—	—	—

* According to whether the property was abated in full or only the balance of abatement allowed therefrom.

Similar changes took place in 1876-7 and in 1853-4. There are various methods by which the change in the total gross assessment attributable to the change in the exemption limit can be estimated for Schs. D and E.

The *first method*, that of **Average Increase**, is a rough one, only to be used when other methods are not available. It assumes, first, that, if no legal change had been made, the gross figures would have exhibited the same average natural increase that had been present in the three or four preceding years; secondly, that if the new conditions had applied to the year before the change, that year would have exhibited the same average natural decrease which was present in the three or four succeeding years, comparing each year with its successor. Then in the first case, taking the estimated year of old conditions from the same actual year of new conditions, we have the amount due to the change; in the second case a similar subtraction gives the amount of gross assessments for incomes or parts of incomes between the two limits for the *preceding* year; and the mean of the results is the estimated loss or gain as the case may be.

The *second method*, that of **Abatements**, is a finer one, because it confines consideration to a smaller class of income, and, unlike the first method, is not affected by considerable variations in large assessments. It assumes for the year of change abatements similar to the preceding year plus the average increase of the years immediately before. The actual figures of the new conditions for that year are compared with this estimated result, and the difference is attributed to the change. A converse process, as in the first method, gives the amount of the same range of assessment for the preceding year, and the mean of the results is taken to minimise the risks of error in the average increase in abatements. To the result must be added an estimate for gross assessments not affected in any way by abatements, such as No. 9 in the examples.

The *third method* is that of **Classification of Gross Assessments**. After determining the maximum gross assessment usually affected by the exemption limit in question (which is about twice the amount of that limit), the total of the classes, which include the sum so determined, is compared for the year of change and the year preceding, the difference, after making a deduction for normal increase, being due to the change. Thus the change of exemption limit from £150 to £160 cannot affect an assessment of £1,000, which remains the same in the two years, but £310 profits for two partners (having no other income) would be in assessment in one year and not in assessment in the other. Conceivably £620 for four partners could drop out in the same way, but the case is rare and may be ignored.

The *fourth method* is that of **Classification of Net Assessments**. This is not so exact as the third method, but it is necessary because for many years this classification was the only one published. It is essential first to bring the net assessments into terms of gross assessment by estimates or otherwise. The total abatements allowable can be allocated to the several classes by proportion, and in this way the sum to be added to any given class of net assessments to find the corresponding gross assessments may be estimated. But a better course is to determine the highest class (in amount) which can possibly exhibit a difference, due to abatements, between gross and net and to aggregate it with all the classes below, adding thereto the *whole* of the sum abated. In this way a sum is obtained for each year which, while not so narrowly confined to the assessments affected by exemption limits as the sums taken above may be, yet represents the true gross assessments of the lower and least fluctuating classes. Comparison of the two years is carried out as in the third method.

The *fifth method* is that of **Differential Rates of Duty**. It is used for 1853-4 and for interpolation in succeeding years, and is described with the computations on p. 489.

The *sixth method* is that of the **Changed Average Assessment**, described on p. 488, with the computations for 1875-6.

SCH. D, 1894-5 : EXEMPTION LIMIT RAISED FROM £150 TO £160.

First Method: Average Increase.

It is unnecessary to take the whole of the Sch. D figures into consideration, since an analysis into (1) "trades and professions," (2) public companies, and (3) "Concerns No. III., Sch. A," is provided, and (2) is wholly unaffected by the change, while (3) is affected only to a negligible extent. For (1) the figures are :—

	£000.		£000.
1889-90 . . .	182,508	1893-4 . . .	181,482
1890-1 . . .	189,576	1894-5 . . .	168,063
1891-2 . . .	189,653	1895-6 . . .	170,302
1892-3 . . .	186,724		

The question is whether, if the exemption limit had remained unchanged, the 1894-5 figures would have continued the decline of 1892-3 and 1893-4 or begun the recovery of 1895-6 and subsequent years. These years were so wholly exceptional in trade conditions that the method is hardly applicable, but the analysis of assessments into amounts helps us to determine some of the constituent elements in the change.

The gross assessment for 1894-5, £168,063, is made up of :—

Gross assessments not exceeding £800 (assessed net)	£000
	47,658
„ „ exceeding £800.	73,038
Total net assessments	120,696
Add abatements £160 (or parts)	43,358
„ „ £100 „	673
Life insurance allowances	2,072
Wear and tear „	1,265
Total	168,063

Now the net assessments for gross assessments exceeding £800 are very unlikely to be affected by abatements, and except for life insurance and wear and tear (sufficiently constant to be ignored in a comparison of years) the net and gross will correspond. By comparing these net assessments with previous years we can narrow down the inquiry. The net assessments for this group (£800 gross and upwards) in 1893-4 were £80,202, and for 1892-3 £85,901. So that of the total decrease in gross assessments in 1894-5 (£13,419) £7,164 is assignable to the group unaffected by the change in law, leaving £6,255 to be dealt with in the other group. (Moreover, while the total decrease in gross assessments in 1893-4 was £5,242, the decrease in this group of assessments was £5,700, or an actual *increase* in the lower group.) We are thus led to the *fourth method*.

Fourth Method : Classification of Net Assessments.

—	1892-3.	1893-4.	1894-5.
Gross assessments not exceeding £800 (assessed net, £000)	58,296 ¹	58,193 ¹	47,658
Abatements (net, £000)	39,552	40,133	44,522 ²
Gross assessments not exceeding £800—total, without insurance allowances (£000)	97,848	98,326	92,180

(The whole of the abatements Sch. D are added, and not merely the portion applicable to “trades and professions,” because

¹ H. C. papers, 165 and 322.

² 39th Report, foot of p. 123.

no apportionment is available prior to 1894-5. The error is negligible on a comparison of years.)

The 1893-4 increase is £478 ; the 1894-5 decrease is £6,146.

If we assume that 1894-5 would normally have been the *same* as 1893-4, the whole of this decrease, £6,146, is assignable to the change, while if we assume a normal increase, the decrease due to the change is *pro tanto* increased. It has been seen that a large decrease in the higher classes is quite consistent with an increase in the lower classes (1893-4), and it can easily be understood that a depression in each of the upper groups of the classes will increase the number and amount of cases falling into the lower classes (unless there is a corresponding depression in those lower classes pushing down equivalent numbers and sums into the exempt class) to bring about the result. As a fact, the burden of all large fluctuations has to be borne by the higher classes, since the lower ones represent assessments much more stable and presenting in general a steady increase, such as salaried employments and retail businesses assessed on conventional or round figures, correct in the long run, but not moving, as a mass, freely with trade conditions. Hence in 1894-5 we find, looking at the numbers of assessments, decreases in *each* of the upper classes from "over £50,000" to "£800 to £900," and in the total of these classes, 3,648 in number. Now, normally (though a few might disappear as cases of "loss"), the lower classes would be increased by this number beyond the normal increase of this group (or at any rate by this number, allowing for no normal increase in a year of depression). So on examination we find the process *begun* at "£700 to £800," where 1893-4 had 5,122 cases and 1894-5 5,241 ; but below this it is counterbalanced by the change in law, and every group shows a *net* decrease. Now, as the group £700 to £800 is that in which the change in law reaches its minimum effects, the above reasoning is fully justified, and we are entitled to assume that with an unchanged law the lower group would have shown a marked increase in numbers, and would have exhibited the effects of the transfer of the 3,648 cases from the higher groups. Now, since the response to trade conditions for assessments below £400 is much slighter than for assessments between £400 and £800, we may assume that the 3,648 cases fell mainly into the latter and the former merely maintained its position. The average of these cases may fairly be taken at £550 each, or £2,006,400 in all. Then the table may be continued :—

	£000
1893-4. Estimated gross assessments (up to	
£800)	98,326

		£000
	Brought forward	98,326
1894-5.	Estimated gross assessments (up to £800) (add)	2,006
1894-5.	Estimated gross assessments (up to £800) (would have been under for- mer conditions)	100,332
1894-5.	Estimated gross assessments were actually for changed conditions	92,180
	Difference	8,152

Second Method : Abatements.

Prior to 1888-9 these were not given separately for each schedule, but after that they were as follows :—

Year.	Abatement, £120 (£000).	Annual Increase.	Number of Abatements.	Annual Increase.
1888-9 . .	38,188	—	318,237	
1889-90 . .	38,455	267	320,460	2,223
1890-1 . .	38,956	501	324,637	4,177
1891-2 . .	39,284	327	327,198	2,561
1892-3 . .	39,552	268	329,601	2,403
1893-4 . .	40,133	581	334,441	4,840
Average . .	—	389	—	3,241

	£	Cases.
1893-4 (actual figures)	40,133	334,441
Add average increase	389	3,241
1894-5 (estimated figures)	40,522	337,682
Add one-third (abatements altered from £120 to £160)	13,507	
Total	54,030	
1895-6 (similarly)	40,522	337,682
Add average increase	389	3,241
Add one-third	40,911 13,637	340,923
	54,548	

—	1894-5.		1895-6.	
	£000	Cases.	£000	Cases.
Estimated under old conditions of exemption limit	54,030	337,682	54,548	340,923
Actual abatements under new conditions . . .	43,841	274,008	45,197	282,483
Difference, due to change in exemption limit . . .	10,189	63,674	9,351	58,440

(*Note.*—Small assessments not subject to abatement at all, representing *parts* of total incomes between £150 and £160 (such as No. 9 in the examples), would not be touched by these figures, and must be added to the differences shown. In the aggregate they could not amount to much. All assessments under £160, forming parts of incomes of all magnitudes, came to £1,979 net in 1894-5 and £1,882 in 1895-6, and these sums therefore represent maximum figures. An estimate of one-quarter would be an outside figure for the purpose.)

If the number of cases above is multiplied by £160, the same result is reached. It leads, as a first approach, to the conclusion that the gross assessment fell about £10,700 and £9,850 in 1894-5 and 1895-6.

Conversely, carrying the new conditions back prior to 1894-5 :—

	£
1894-5 (actual abatements)	43,841
Deduct average annual increase, 1894-5 to 1898-9.	1,168
1893-4 (estimated figure : new conditions)	42,673
Adjust for difference in amount (one-fourth), £160 to £120.	10,668
	32,005
1893 (actual figure : old conditions)	40,133
Difference	8,128
1893-4 (as above)	42,673
Deduct average annual decrease	1,168
1892-3 (estimate : new conditions)	41,505
Adjustment for changed abatement.	10,376
1892-3	31,129
1892-3 (actual : old conditions)	39,552
Difference	8,423

Notes on these Results.

(1) There is the necessary assumption that an abatement of £160 could be allowed from an assessment of £150 or £155 in the years for which estimates on the old conditions have been made. This affects the figures slightly.

(2) Of more importance is the defective material upon which the above computations in regard to abatements have been worked. In 1894-5 no information was given as to abatements "allowed by schedule" (*vide* 45th Report, p. 209). The table shows that the difference between the old and the new figures, after adjusting 1893-4 for the effect of the re-assessment year under Schs. A and B, was *much greater* in 1894-5 than in the prior and succeeding years, bearing out the statement already abundantly verified that in a year of legislative change that change is given effect to imperfectly so far as the assessment figures are concerned, and falls late, swelling the "allowances by schedule." Thus, from the table, more than 6,000 abatements £160 were allowed by schedule in 1894-5 in excess of the abatements £120 in 1893-4, and the number attributable to Sch. D was about 4,000. If, therefore, we substitute for the actual number 274,008 on p. 479, 278,008, we have a difference of 59,674 only, or £9,548,000.

(3) In taking the average increase in numbers on p. 478 at 3,241, it seems quite possible on inspection of the figures that the real increase was less; it is not likely to have been less than 50 per cent., say 1,600, and on this assumption the figure £9,548,000 above is reduced to £9,350,000.

Results of Methods.—Fourth, £8,152,000; second, £9,450,000
Figure taken, £8,800,000 ($\pm$ £700,000).

SCH. E, 1894-5.

Second Method : Abatements.

Year.	Amount allowed (£000).	Number.	Increase: Amount (£000).	Increased Number.
1890-1 . .	9,800	81,665		
1891-2 . .	10,356	86,300	556	4,635
1892-3 . .	10,999	91,656	643	5,356
1893-4 . .	11,561	96,344	563	4,688
1894-5 . .	13,769	86,061		

	£	Cases.
1893-4 (actual amount and number allowed)	11,561	96,344
<i>Add</i> average increase	587	4,893
1894-5 (estimated : on old conditions)	12,148	101,237
<i>Add</i> , to convert £120 into £160 abatements (one-third)	4,049	
	16,197	
1894-5, actual amount and number	13,769	86,061
Difference (15,176 at £160 = £2,428)	2,428	15,176

Sixth Method : Changed Average Assessment.

Year.	Amount (£000).	Number.	Average Assessment.
1890-1	47,707	231,326	206
1892-3	51,583	246,789	209
1893-4	52,591	250,503	209·9
1894-5	51,040	235,574	216·6
1898-9	65,288	296,962	219

1893-4 (actual number) 250,503
Add annual increase 1891-2 to 1893-4. 2,743

1894-5 (estimated number : old conditions) . 253,246
1894-5 (at the old average, £210). £53,181
1894-5 (actual figures) 51,040

Decrease £2,141

Third Method : Net Assessments.

Although parliamentary papers are available,¹ and the information given is used for Sch. D, it cannot be used for Sch. E, the

¹ H. C. 165—1894, 322—1895 and 216—1896. In the latter the bracket from “not exceeding £160” to “not exceeding £400” is evidently a misprint, and it should include the next class, exceeding £500.”

classes having been altered in 1894-5, and no comparison is possible.

Estimate adopted, £2,280,000 ($\pm$ £150,000).

THE BREAK IN 1876-7: SCH. D.

In the 20th Report (p. 52) the effect of the extension of the exemption limit from £100 to £150 is provisionally given as follows (in thousands):—

—	1875-6.	1876-7.	Decrease.
Number of persons assessed, D .	603·2	437·2	166
„ „ „ E .	186·7	147·8	38·9
Total	789·9	585	204·9

This “does not indeed represent the full measure of relief afforded under these schedules alone by the extension of the limit of exemption from £100 to £150, because if there had been no alteration in the law the total number of persons chargeable in 1876-7 would probably have been greater by at least 40,000 than the number chargeable in 1875-6, so that it may be estimated that there were about 244,000 fewer persons brought into assessment for 1876-7 under Schs. D and E than there would have been.”

If we divide the estimate of 40,000 in proportion to the total numbers in the Schs. D and E and add three-fourths, or 30,000, to Sch. D, the decrease in numbers assessed is 196,000. In the 21st Report (p. 56) fuller details were available, and the following estimate is made:—“In explanation of the decrease of £15,064,868 for 1876-7, it is necessary to point out that the extension . . . caused a considerable diminution in the number of persons liable to be charged under Sch. D. There were 568,229 persons *charged* for the year 1875-6, and if the limit of exemption had not been altered, the number of persons liable to be assessed in 1876-7 would probably have exceeded 600,000, but the number actually charged for that year was 401,137, and it may be observed that an average assessment of only £100 on 200,000 additional persons would have represented £20,000,000 of gross profits.¹ Notwithstanding there were decreases in several items under Sch. D,

¹ Repeated in the 22nd Report, p. 52.

there were increases under some other heads, and but for the change in regard to the limit of exemption the assessments for 1876-7 would probably have shown an increase not less than for the preceding year."

First Method.

If we deal with the gross figures on this assumption, they would have been (in thousands) :—

	£
Actual (1875-6)	271,974
Increase as in 1875-6	5,013
Assumed (1876-7)	276,987
Actual (1876-7)	256,909
Loss through exemption limit (1876-7)	22,078

Conversely, working backwards :—

	£
Actual (1876-7)	256,909
Decrease, as compared with 1877-8	3,718 +
Presumed (1875-6)	253,191 -
Actual (1875-6)	271,974
Gain, through exemption limit (1875-6)	18,783 +

If we take the mean of these two results, the loss was £19,430,000 (+).

The increase from 1876-7 to 1877-8 of £3,718,000 would of course have been greater if the incomes £100 to £150 had also been included, so that it is a fair assumption that the real increase in each of three years—1875-6, 1876-7 and 1877-8—was between four and five millions. (The increase of the five preceding years was £82,949,000 and of the five succeeding years £10,494,000, the average being £9,343,000. On this basis the "loss" was £24,408,000, but there is no ground for preferring the estimate to the one already given, which definitely follows the obvious trend of the time, and is supported by an analysis of the classification of profits.)

In the 28th Report (p. 299), from the table of assessments 1868-9 to 1883-4 classified according to amounts (in which the classification from 1873-4 is determined by the amount of the gross assessment, but the sums actually included are the *net assessments*), we may find collateral evidence by the *fourth method* :—

Class (1875-6).	Number charged.	Amount of Profits charged (000 omitted).	Add for Abate-ments.	Estimated Gross.
		£	£	£
Under £100 a year .	34,601	993	1,000	2,000
£100 and under £150	243,643	9,243	16,000	25,250
£150 and under £200	92,593	8,699	6,300	15,000
Assessments under £200 (total gross)				42,250

The amounts in col. 4 are arrived at—(a) for assessments under £100 by an estimate ; many of the assessments would be alike in gross and net, having no abatement, but others would have parts of the £80 abatement allowed, and the practical margin of error is not great ; (b) for the other classes by assigning the total abatements (£29,100,280 ÷ £80), after deducting the amount above referred to for the first class, and after making an allowance for the few cases of firms where abatements are allowed against assessments above £300, between the three classes £100 to £150, £150 to £200, and £200 to £300, in the same proportion as the numbers of assessments in those classes.

Class (1876-7).	Number charged.	Amount of Profits charged (000 omitted).	Add for Abate-ments.	Estimated Gross.
		£	£	£
Under £150 . . .	60,450	2,175	2,000	4,200
£150 to £200 . . .	132,833	6,702	13,000	19,700
Assessments under £200 (total gross)				23,900

The amount added for abatements is arrived at, as before, by an estimate in the first case and by dividing the total abatement £27,420,000 (after assigning a part to the "under £150" class and a part to the "over £400" classes) between the three classes "£150 to £200," "£200 to £300," and "£300 to £400" in the same proportion as the numbers of assessments in those classes. The method is not very exact, but since it is the same for the two years, and it is the comparison rather than the absolute figures with which we are concerned, it may be expected to yield a fairly close result.

The difference between the total gross assessments "under £200" in the two years is therefore £42,250,000 — £23,900,000,

£18,350,000. Now the great mass of the incomes (assessed to Sch. D) from £100 to £150 would fall in the combined class, but a few cases, such as assessments upon firms, in the following form:—

1875-6.—A. B. & Co.—gross, £280; two abatements, £160; net £120—would not be included since they would fall into the classes above £200 in 1875-6, and not appear at all in 1876-7, if the two partners had no other income and were therefore exempt in the latter year. Addition for this factor, and also the addition for a normal increase in the year in the class £150 to £200, will bring the estimate of £18,783,000 close up to the total loss, already estimated at about £20,000,000.

But as the method of dividing the total abatements into sections is open to objection, and cannot be verified, it may be considered preferable to take the whole class of assessments below £400, which must practically include all affected by the exemption limit, and so avoid splitting the abatement allowance at all, as follows:—

Gross Income: Classes.	1872-3 (£000).	1875-6 (£000).	1876-7 (£000).
Under £100	10,545	993	
£100—£150	—	9,243	
Under £150	—	—	2,174
£100—£200	10,801		
£150—£200	—	8,699	6,702
£200—£300	9,903	15,840	13,016
£300—£400	9,362	11,423	11,354
Total net assessments .	40,611	46,198	33,246
Abatements	23,107	29,100	27,420
	63,718	75,298	60,666
Less life assurance (estimated).	350	449	498
Total gross assessments .	63,368	74,849	60,168

	£000
Total gross assessments, 1875-6	74,849
Add average increase 1872-3 to 1875-6	3,827
Estimated gross 1876-7, old conditions . .	78,676
Actual gross 1876-7, new conditions . . .	60,168
Difference	18,508

Second Method (modified) : Abatements.

Examining the abatement tables for corroborative evidence we find the following :—

Abatement.	Year.	Amount (£000 omitted).	Number of Incomes.
£60 on £100 to £200	1868-9	11,440	190,667
	1869-70	12,006	200,100
	1870-1	12,936	215,600
	1871-2	13,593	226,550
£80 on £100 to £300	1872-3	23,134	289,175
	1873-4	25,290	316,125
	1874-5	27,403	342,537
	1875-6	29,193	364,912
£120 on £150 to £400	1876-7	27,586	229,884
	1877-8	30,044	250,366

Number of incomes £100 to £200 (1871-2) . 226,550

Add average increase (1868-9 to 1871-2) . 11,961

Number of incomes £100 to £200 (1872-3, estimated) . 238,511

Actual number of incomes £100 to £300 (1872-3) 289,175

Estimated number of incomes £200 to £300 (1872-3) . 50,664

Assuming the same proportion was maintained in 1875-6, we have number of incomes £200 to £300 (1875-6) . 64,000

And assuming the number of incomes £300 to £400 was in the same ratio as the number of assessments £200 to £300 was to £300 to £400, i.e., 90,239 : 36,673, we get :—

Number of incomes £300 to £400 (1875-6) . 26,000

Actual number of incomes £100 to £300 (1875-6) 365,000

Estimated number of incomes £100 to £400 (1875-6) . 391,000

Actual number of incomes £150 to £400 (1876-7) 230,000

Estimated number of incomes £100 to £150 (1876-7) (+ year's growth) . 161,000

∴ At an average income of £120 this accounts for a loss of £19,320,000 (plus one year's growth).

Result.—On the whole, therefore, an estimate of £20,000,000 ± £500,000 appears to be a safe one.

SCH. E : THE BREAK IN 1876-7.

In the 21st Report it is pointed out that Sch. E showed a decrease of £4,000,957, but there was an estimated falling off of 44,000 in the numbers of persons assessed. If the average assessment was £125 (midway between the limits £100 and £150), this gives £5,148,000 dropped in 1876-7.

Fourth Method.

Net Assessments.—Tables in 28th Report, pp. 307-310 (£000 omitted) :—

Gross Income.	1872-3.	1875-6.	1876-7.
Under £100, but not exempt	3,640	2,111	
£100 and under £200 . . .	4,937	3,331	
Under £150, but not exempt	—	—	3,004
£150 and under £200 . . .	—	2,871	2,104
£200 to £300	3,267	4,430	3,769
£300 to £400	3,011	3,417	3,077
Total of net assessments under £400 (gross) . . .	14,855	16,160	11,954
Total sums allowed as abatements	4,376	5,332	5,135
Total gross assessments under £400	19,231	21,492	17,088
<i>Add to 1875-6, normal increase one-third of £21,492 - £19,231</i>			
		754	
<i>Add for life insurance, less in 1876-7 than 1875-6 through change in exemption limit</i>			
		30	
<i>Estimated 1876-7 gross on previous lines</i>			
		£22,276	
<i>Actual 1876-7 gross on new lines</i>			
		17,088	
<i>Loss through exemption change.</i>		5,188	

Sixth Method.*Numbers of Assessments.*—28th Report, p. 317 :—

Year.	Numbers.	Gross Assessments (ooo omitted).	Average Assessment.
		£	£
1872-3 . . .	163,215	30,007	183
1875-6 . . .	186,679	34,044	182
1876-7 . . .	148,076	30,043	203
1883-4 . . .	184,122	37,734	205

It is clear from an inspection of the figures that the average assessment remained very constant in 1872-5 conditions at £182, and in the 1876 *et seq.* conditions at £203, slowly increasing. The increase in the exemption limit was therefore responsible for the sudden jump from £182 to £203. From 1872-3 to 1875-6 there was an increase of 23,464 persons, or 7,821 per annum; adding this normal increase to 1875-6 gives 194,500 for 1876, on the old conditions—

At £182 + average = . . .	35,399,000 (+) gross
Actual figure 1876-7 was . . .	30,043,000 „
Lost, through exemption change	5,356,000 + „

First Method.

	£
Gross Assessments, 1875-6 (ooo omitted) . . .	34,044
Add normal increase (34,044 — 29,539) ÷ 3	1,467
Estimated (1876-7)	35,511
Actual, 1876-7	30,043
Lost, through exemption limit change . . .	5,468

Result.—It appears, therefore, that the loss was about £5,300,000 ± £100,000.

SCH. D: BREAK IN 1853-4.**First Method.**

	(ooo omitted).	£
Year 1852-3 (Great Britain)		58,645
+ Three years' average, 1849-52 (increase) . . .		1,739
1853-4 (estimate)		60,384
1853-4 (actual)		75,008
Difference, 1853-4		14,624

The actual figure should be much less because in 1853 new assessments were made, and the increase above 1852-3 would be greater than the preceding average.

Third Method : Analysis of Assessments (Great Britain).

There is no necessity to carry the comparison beyond £300 assessments, as this will cover the case of two partners previously exempt.

1852-3.		1853-4.	
	£		£
Under £150 . . .	{ 2,155 317	Under £100 . . .	{ 1,181 198
£150—£200 . . .	{ 5,898 457	£100—£200 . . .	{ 17,259 1,674
£200—£300 . . .	{ 6,151 496	£200—£300 . . .	{ 6,833 569
	15,474		27,714

(Difference, without normal increase in the year, £12,240.)

A careful inspection of the figures for succeeding years seems to indicate that a considerable excess sum was brought into charge in the first year of the new conditions, so that this result represents a maximum, and the probable real figure would not exceed £11,000.

For Ireland the actual figure in 1855-6 was £590 (charged at 11½d.), so that the total by this method would not exceed £11,590.

Fifth Method : Differential Rates.

In the years 1853-4 to 1862-3 (except for 1858-9) differential rates of duty existed for incomes between £100 and £150 and those above £150. As the aggregate net assessments (N) and the actual aggregate amounts of duty charged (D) are given, the net assessment charged at the lower rate (n_2) should be ascertainable by the following formula, where r_1 and r_2 are the higher and lower rates respectively :—

$$n_2 = \frac{Nr_1 - D}{r_1 - r_2}.$$

But on testing it with D as given in the Reports it is found that the errors in N and D,¹ due to composition duty and additional

¹ Vide Chapter VI.

assessments, are large in relation to the amount $Nr_1 - D$ and give a misleading result. Recourse to the annual parliamentary returns, with the classification of assessments,¹ solves the difficulty, however, since the *amount of tax* applicable to each class is given. For all the classes except the two lowest this tax works out exactly at the higher rate, but on the others it is at a mixed rate, and the proportion charged at the lower rate can be found by the formula. An addition is necessary for allowances by schedule, and for concerns under No. III., Sch. A. The result is as follows (000 omitted) :—

	£		£
1853-4 . . .	9,939	1858-9 . . .	not available
1854-5 . . .	9,520	1859-60 . . .	9,013
1855-6 . . .	9,902	1860-1 . . .	9,572
1856-7 . . .	10,020	1861-2 . . .	9,860
1857-8 . . .	10,135	1862-3 . . .	10,451
(Estimate adopted, £11,000,000 ± £1,000,000.)			

SCH. E : BREAK IN 1853-4.

First method gives £1,895,000 for Great Britain.

Third method (differential rates) gives, 1853-4, £2,240,000 for United Kingdom.

Second Method (H. C. Papers, 341 of 1854 ; 482 of 1854).
Great Britain.

Classes.	Assessments (1853-4).	Assessments (1852-3).
Under £150 . . .	—	1,547,869
Under £100 . . .	891,690	
£100—£150 . . .	2,448,226	
£150—£200 . . .	1,517,086	1,421,224
£200—£300 . . .	2,128,355	2,046,630
Total . . .	6,985,357	5,015,723

Difference 1,970

The 1852-3 figures included some assessments
that were in Ireland in 1853-4 (proportion of
whole amount) 41

Total 2,011

(Estimate adopted, £2,000,000 ± £100,000 : Great Britain.)

¹ Vide p. 254.

APPENDIX II.

DETAILS OF THE CONSTRUCTION OF VARIOUS TABLES IN THIS BOOK.

TABLE A4.

THE task here is to fill up the blanks in the official tables for the years to 1850-1. As the totals are given, together with a classification for several of the years, it is chiefly a matter of distributing the totals so that the several classes give a consistent series, and there cannot possibly be a serious error in any item, especially as the most important—"Railways"—is given each year in detail. This has been done and the total of the Concerns No. III., Sch. A, transferred to Sch. D.

For Ireland there are no figures prior to 1860-1. The mines, etc., are unimportant and have been carried back by a progressive decrease; the item of most importance is "Railways," and this has been carried back from the known figure in 1860 by reference to "net receipts" to 1849, after consideration of the statistics of Irish railways. Appendix III. gives details of the computations for lands and houses for Ireland 1842 to 1852, and 1853 to 1875, for which no figures are available or the official figures given are defective. These results are transferred to Table A4. Several small points remain to be mentioned:—

Lands, col. 1.—The uncommuted tithes for England and Wales have been added down to 1903 from the official tables; after that date they are not given separately and are taken at £200,000, which is within a fraction of the true figure.

Houses, col. 3.—In Ireland since 1893 the properties "rated on half-rents" (certain properties used for charitable and educational purposes) have been added to the houses. The corresponding additions have been made back to 1861-2 from the Reports. The error given in 1843-4 ("lands") is to cover the absence of exact official data, also for Ireland 1842 to 1860; for 1860 to 1875-6 in Ireland, to cover the slightly uncertain transfer for farmhouses, disappearing therefore in aggregate Sch. A. The error for

"houses" is similar, with a slight addition 1862 to 1868 for property rated on half-rents in Ireland.

TABLE B.

So far as England was concerned, for the charge of duty the statutory basis was seven-eighths of one-half the rent. But for computing the statutory *income* it was one-half the rent, and this basis has been adopted for the table. (This mainly accounts for the difference between these figures and those given in Sir Algernon West's tables: R. C. on Trade Depression, 1886, p. 215.) The method of computation up to 1879 is as follows:—

(a) Official net	—
(b) <i>Add</i> abatements	—
(c) Deduct nurseries	—
(d) Total lands (net)	—
(e) Corrected, by distributing deduction of one-eighth over "exempt" and "liable"	—
(f) <i>Add</i> "Nurseries": Total liable	—
(g) " " " " Total exempt	—
(h), (f) and (g) (official gross)	—

Statutory income liable is one-half (e) plus (c); statutory income exempt is one-half (g).

TABLE AD. SHOWING THE ESTIMATED EFFECT OF THE TRANSFER OF RAILWAYS, &c. (CONCERNS
No. III. SCH. A) TO SCH. D, 1866-7.

Year.	England.			Scotland.			Ireland.			United Kingdom.			
	Sch. D.	Sch. A.	Total.	Sch. D.	Sch. A.	Total.	Sch. D.	Sch. A.	Total.	Sch. D.	Sch. A.	Total.	Total.
1842	52,787	7,449	60,236	4,876	935	5,811	3,331	173	3,381	60,994	8,434	69,428	
1843	49,962	7,440	57,402	4,262	926	5,188	3,237	213	3,292	57,461	8,421	65,882	
1844	49,679	8,114	57,793	4,450	986	5,436	3,220	218	3,280	57,349	9,160	66,509	
1845	53,029	9,396	62,425	5,259	1,205	6,464	3,370	168	3,435	61,658	10,666	72,324	
1846	54,391	10,044	64,435	5,716	1,349	7,065	3,488	230	3,558	63,595	11,463	75,058	
1847	53,932	11,221	65,153	5,579	1,382	6,961	3,400	181	3,475	62,911	12,678	75,589	
1848	49,202	12,286	61,488	4,782	1,531	6,313	3,291	200	3,371	57,275	13,897	71,172	
1849	48,825	11,773	60,598	4,604	1,563	6,167	3,416	200	3,701	56,845	13,621	70,466	
1850	49,721	12,106	61,827	4,805	1,502	6,307	3,578	200	3,948	58,104	13,978	72,082	
1851	51,823	12,776	64,599	5,055	1,637	6,692	3,708	184	4,128	60,586	14,833	75,419	
1852	53,553	13,583	67,136	5,092	1,635	6,727	3,852	192	4,322	62,497	15,688	78,185	
1853	68,135	14,482	82,617	6,873	2,080	8,953	4,558		5,078	79,567	17,082	96,649	
1854	68,384	15,215	83,599	6,859	2,152	9,011	4,446		5,036	79,689	17,957	97,646	
1855	67,832	15,708	83,540	6,719	2,253	8,972	4,337		5,060	78,888	18,611	97,499	
1856	69,111	16,488	85,599	6,856	2,182	9,038	4,280		5,440	80,247	19,450	99,697	
1857	73,107	19,076	92,183	7,107	2,775	9,882	4,510		5,440	84,725	22,781	107,506	
1858	73,445	19,303	92,748	6,779	2,732	9,511	4,587		5,527	84,812	22,975	107,787	
1859	76,991	19,680	96,671	7,383	2,622	10,005	4,628		5,578	89,001	23,252	112,253	
1860	77,825	20,893	98,718	7,176	3,052	10,228	4,604		5,594	89,606	24,935	114,541	
1861	81,120	21,431	102,551	7,893	3,008	10,901	4,678		5,794	93,691	25,471	119,162	
1862	85,088	21,794	106,882	8,235	3,027	11,262	4,674		5,794	97,997	25,941	123,938	
1863	87,368	22,406	109,774	8,536	3,089	11,625	4,369		5,439	100,213	26,566	126,779	
1864	95,637	24,854	120,491	9,799	3,499	13,288	4,670		5,873	110,106	29,556	139,662	
1865	103,998	27,090	130,990	10,943	3,663	14,606	5,297		6,548	120,148	32,604	152,752	

TABLE D.

The stages in the construction of this table are as follows :—

	Example: Years.	
	1847.	1865.
(1) Ordinary official " gross " assessments	70,192	134,439
(2) Break 2: False " gross " down to 1867 (substitute official net) . . .	59,512	120,148
(3) Break 4: Additional assessments (add) 401	401	
(4) Break 4: Composition duty effects (deduct) 2,123	2,123	
Total	57,790	
(5) Add abatements to net, 1863 to 1867 .	—	9,500
(6) Break 9: Railways, etc., No. III., Sch. A to 1865-6 . . . (add) 12,603	12,603	32,604
(7) Basis for (8) and (9) . . . (total) 70,393	70,393	162,252
(8) Break 3: Life assurance, 1853 to 1873-4 (add) —	—	267
(9) Break 11: Wear and tear allowances to 1879-80 (add) 269	269	620
(10) Break 10: Unassessed duty to 1890-1 (add) 34	34	458
(11) Break 1: Ireland, 1842-1853—Appendix III. (add) 3,475	3,475	
(12) Municipal stocks, transferred from Sch. C in 1893 (add) negligible	negligible	
Total	74,171	163,597
(13) Adjustment to £150 exemption limit, 1853 to 1875 and after 1894 (deduct) —	—	13,980
(14) Adjustment to £160 exemption limit up to 1894	74,171	149,600
	72,300	145,300

The range of possible error in most of these adjustments is too small to come into the result. From 1842 to 1853 the Irish adjustment and the composition duty give a special computation

for each year. Adjustment for the £150 exemption limit gives a possible error as in Appendix I. ; there is clear evidence up to 1861 that the £100 to £150 section fluctuated very slightly, after which it increased in amount, but decreased in proportion up to 1875, and the error has been increased to cover the possible inaccuracy of the interpolation. The proportionate computation from 1894 to date gets less secure as we recede from the starting point, but the error cannot well be more than the figure assigned.

The adjustment to the £160 exemption limit is taken back from 1894 proportionately. As it has to go back fifty years, it might of course get far from the truth, but it is possible to narrow down the possible deviation very closely. As at 1845 we have, without complication, the classification test, the range "£150 to £200" is known for that year and for 1892-3. The sum assigned to "£150 to £160" is slightly over one-third in the latter year, and slightly less in the former. The index of distribution ¹ is closely similar, and in the earlier years there is hardly scope for a greater error than .2. As the midway point is approached this is increased to .4.

TABLE E.

The stages in the construction of this table are as follows :—

	Example: Years.	
	1847.	1865.
(1) Ordinary official "gross assessments"	11,927	23,746
(2) Break: False "gross" down to 1867 (substitute official net)	11,807	21,528
(3) Abatements to net, 1863 to 1867 (add)	—	1,980
(4) Life insurance and "expenses," 1853 to 1873 (add)	—	373
(5) Ireland, 1842-53: Appendix III. (add)	690	
(6) Total	12,497	23,881
(7) Adjustment to £150 exemption limit 1853 to 1875 and after 1894 (deduct)	—	3,611
(8) Total	12,497	20,270
(9) Adjustment to £160 exemption limit up to 1894	11,970	19,410

¹ Pareto index applied to the gross assessments.

The range of possible error under (4) is too small to affect the result. The Irish adjustment is correct within $\cdot 06$, and the adjustment for the £150 exemption limit can hardly exceed $\cdot 2$, when the differential duty is examined and the "fit" at each end 1853 and 1875 is found, but after 1894 with the growing totals a larger figure is assigned as possible. The adjustment for the £160 exemption limit is a small one, and is tested fairly closely by the assessments classification 1845, etc., and found to bear a proper ratio to the £150 to £200 class. Uncertainty in the middle years is allowed for, and the whole error has to be added to the preceding column.

Computations for Unassessed Duty to 1890-1 for Table D.

Reference is made to the particulars given under the heading "Receipts in addition to the foregoing for duty unassessed and of recoveries from default schedules of prior years" in the earlier reports (*e.g.*, 38th Report, p. xliii.).

In order to ascertain what proportion of the sums under this heading relate to duty unassessed, and what to recoveries of sums already assessed, for the purpose of obtaining the true "gross assessment" the sums (of duty) given for the years 1891-2 to 1900-1 have been reduced to terms of income (at the rates of tax proper to the several years) and the results compared with the differences between the gross assessments given in 1900, on the new basis, and those for the same years in the previous annual reports. Over the nine years the unassessed income averages nearly 75 per cent. of the unassessed income plus recoveries from default schedules. Several difficulties arise in connection with the adjustment of the gross figures of earlier years. (a) As the duty is in some cases that which *is due after* the allowance of abatements, etc., it does not give the full gross income if it is merely multiplied by the rate in the £. But in *total amount* the unassessed duty upon the assessments above £400 is far larger than the unassessed duty on assessments below £400, and, since prior to 1894 no abatement was allowed upon a higher income than £400, it is safe to say that the error due to this element is negligible, especially for comparative purposes. (b) Duty unassessed relates to income for prior years, and therefore it seems incorrect to add it to the total income for the year in which it is recovered. But there is no good means of splitting it up for its proper years, and it may relate to income for one up to ten or more years, according to circumstances in individual cases.

Moreover, on analysis the present system appears to adopt the whole of it as the income of the year preceding recovery, so that on the whole it appears to be best to risk the slight possible error, which can hardly be greater than the possible error due to an arbitrary method of splitting the amounts. (c) For the years subsequent to 1891-2 the official adjustment has been accepted, although it evidently covers some other small discrepancies. For the preceding years it will be seen that the "duty recovered" varies very widely, and the following method has been adopted :—

1842 to 1852.—Of the small sums in these years a considerable proportion must have been default recoveries, and there could, in the nature of the case, have been little unassessed duty ; 50 per cent. has been taken as so applicable. From 1853 it has been postulated that a regular progressive sum would be recovered from default (after allowing for the varying rates of tax), and starting with 60 per cent. as unassessed duty (an advance on the previous decade, but less than the later proportion) the balance of duty has been reduced to the amount per penny (the mean rate of the three preceding years) : this sum has been progressively increased each year until the sixties, when for reasons relating to the collection it was markedly diminished,¹ and from that date it has increased again progressively until 1890. Each year's figure has then been recomputed into total duty from default schedules by using the mean rate of the three preceding years at first, then of two and a half, and later of two years, according to the improved methods of administration. These sums have been deducted from the official total figures each year, and the balance regarded as unassessed duty. The unassessed duty has been reduced to assessment terms by the mean rate of the three preceding years and the result assigned to the gross assessments of the *year preceding recovery*. These estimates have been slightly corrected in places for the known effects of re-assessment years. The probable error throughout cannot be considerable and is far less than any conventional statistical method of computation would give, for it is based on the elimination of the factor which fluctuates least. The figure given for the probable error is based, not upon the duty unassessed, but upon a range of error of ± 20 per cent. in the sum allocated to recoveries from default (and of ± 40 per cent. during the early sixties, when those sums were much less)—an ample figure when it is considered that it allows of this considerable deviation of any one year from the normal line of the recoveries "per penny in the £."

¹ 9th Report, pp. 24, 27 ; 10th Report, pp. 41, etc.

Sch. D : Additions for Unassessed Duty.

1842		1867	490·5 ± 48
1843		1868	544·7 ± 67·2
1844	1·4 ± 3	1869	563·4 ± 86·4
1845		1870	823 ± 57·6
1846	3 ± 6	1871	3,177 ± 57·6
1847	33·6 ± 6·7	1872	1,323·8 ± 72
1848	9 ± 1·5	1873	3,013·2 ± 81·6
1849	29·2 ± 5·8	1874	6,299·5 ± 96
1850	32 ± 6·4	1875	7,800 ± 110·4
1851	44·8 ± 8·9	1876	4,341·6 ± 156
1852	207·5 ± 27·8	1877	4,000 ± 139·2
1853	307·4 ± 30·8	1878	2,428·9 ± 115·2
1854	144·0 ± 29·8	1879	4,881·1 ± 144
1855	36·2 ± 37·2	1880	3,023·3 ± 144
1856	65·5 ± 32·1	1881	4,232·5 ± 216
1857	91·4 ± 40·8	1882	4,542 ± 288
1858	528·0 ± 38·4	1883	5,954·2 ± 235·6
1859	222·0 ± 38·4	1884	5,017·1 ± 288
1860	226·3 ± 4·8	1885	5,112·7 ± 216
1861	229 ± 7·6	1886	6,083·9 ± 329
1862	144·6 ± 10·8	1887	6,459·6 ± 288
1863	97·5 ± 13·4	1888	7,073·6 ± 308·6
1864	489·6 ± 16·4	1889	4,596·3 ± 370·3
1865	458·3 ± 19·2	1890	4,087·2 ± 370·3
1866	135·4 ± 28·8		

Table G2 : Abatements.

Abatements (£60 on Incomes £100 to £200), 1863-4 to 1871-2.—Prior to 1868-9 (see 28th Report) only the “total amount of income *abated from the assessments*” is known (13th Report, p. 208). It is allocated to the several schedules, by estimate, as follows :—

Year.	Total (£000).	A.	B.	D.	E.
1868-9	14,947	204	1,290	11,441	2,012
1867-8	14,262	200 ± 10	1,285 ± 10	10,830 ± 10	1,947
1866-7	13,572	200	1,300	10,210	1,860
1865-6	12,981	200	1,301	9,500	1,980
1864-5	11,751	200	1,301	8,820	1,430
1863-4	9,249	100 ± 50	499 ± 50	7,500	1,150

[Note.—It would be tedious in the extreme to describe in detail the

laborious "fitting up" involved in arriving at these estimates. They have to dovetail into other known data in so many ways that the range of possible error is very narrow. Among the considerations involved are—(a) consistent and stable figures for A and B; (b) a materially less figure for A and B in the earliest year; (c) a consistently diminishing figure back from 1868-9 for D and E; (d) a sum under D and E always less than the difference between gross and net assessments; but (e) only so much less as to leave a consistent balance, under each schedule, for exemptions.]

(1) From 1863-4 to 1888-9 the amount of assessment abated under Sch. B was treated on the same terms as assessment under the other schedules, whereas it did not represent *income* in the same way. To obtain the "income" corresponding to the other schedules the statutory income should be determined therefrom (one-half in England and Wales, and one-third in Scotland and Ireland). This error has been particularly referred to in 1887, and the official figures were made up on a new basis in 1889-90. The corresponding figures for each previous year have been found, and the difference is adjustment 1 (minus).

(2) Until 1900-1, only the amount abated in the assessments was shown under the separate schedules. After that date abatements allowed during the course of the collection and also by repayment were allocated to the respective schedules, so that the net assessment should be given as a true net income on which tax was received. But the separate annual reports from 1874-5 give the *total* abatements by repayments. Prior to 1874-5, back to 1868-9, this item is obtained by reference to the *duty* repaid, on the same plan as obtained officially after 1874. From 1863-4 to 1868-9 the separate sums repaid for abatements are not given, but the computation is made by proportion to the total repayments. This gives adjustment 2 (plus).

(3) The abatements allowed "by schedule" during the course of the collection were not given until 1900-1, but as a ten-year corrected table was then furnished it is possible by deducting the total in the assessments plus repayments from the new total to ascertain the correct figures, 1891-2 to 1899-1900. For prior years the estimates are made proportionately on the information so gained. It is a peculiarity of "re-assessment" years that the sums abated in the assessment under Schs. A and B are smaller than usual,¹ but the difference is made good by the sums allowed "by schedule" being correspondingly greater. The sequence of figures in cols. 2 and 3 is thus made regular. This additional

¹ The footnote on p. 59 of the 38th Report represents a mistaken conception of the facts.

allowance has been provided for in such years, and the total arrived at gives adjustment 3 (plus).

(4) The net total of the foregoing is given in the "adjustments" column, and the true amount corresponding with the present system is shown in the next column. The margin of error between 1890-1 and 1874-5 is not greater than ± 1 per cent., and prior to 1874-5 it is not greater than ± 2 per cent.

The method of arriving at the number of claimants is referred to in the text.¹ The numbers given in the earlier reports were not arrived at on this plan, and were merely the total number of assessments wholly or partly abated—a figure which should be ignored for statistical purposes.

Table G5 : Stages in Construction.

(1) Elimination of income below £150, 1853 to 1862, by differential rate, deducted from net produce.

(2) Net produce obtained from "net produce per *1d.*" by the annual rate (to 1900), after allowing for recoveries from default, and unassessed duty, shown separately in earlier years.

(3) Deduction for composition duty (1842 to 1860).

(4) Allowance for *effect* of compositions (1842 to 1850).

(5) Additions for Ireland (1842 to 1853).

(6) Additions for insurance from 1853—in the earlier years entailing estimates of totals from partial figures.

(7) Deduction of income below £150 (1863 to 1875).

(8) Addition of abatements from 1863.

(9) The foregoing give the taxable income at £150 with no repairs.

(10) Deduct repairs—one-eighth on lands and between one-sixth and one-seventh on houses from 1842.

(11) Add for repairs upon property belonging to exempt persons. ("Nil" where the exemption is for interest or ground rent, and a large fraction where the balance of mortgaged property is exempted.)

(12) This gives totals at £150 exemption limit, *with* repairs.

(13) From 1893 backwards deduct income between £150 and £160.

(14) This gives figures for the conditions of 1894 to present date.

(15) From 1894 add all repairs, and deduct repairs on exempt property.

(16) From 1894 add income between £160 and £150.

(17) This gives, from 1894, the figures in continuation of preceding conditions.

APPENDIX III.

IRELAND. 1842 TO 1853.

DETAILS OF THE ESTIMATES MADE UNDER THE SEVERAL SCHEDULES FOR THE YEARS PRIOR TO THE IMPOSITION OF THE INCOME TAX, IN ORDER TO COMPLETE THE TABLES FOR THE UNITED KINGDOM IN THOSE YEARS.

Ireland : Schs. A and B, 1842 to 1853, 1853 to 1875.

THE official statistics prior to 1875 were defective, and their interpretation gives rise to several difficulties. It has been necessary to remedy these defects—which can only be done as the result of minute study—and to estimate the details for the years 1842–3 to 1852–3.

Stage (1).—The net figures from 1853 to 1876 as given in the 13th and 28th Reports are first set out. From these are deducted the transfers to Sch. D (railways, etc.), 1853 to 1865–6.

Stage (2).—The net and the gross are identical down to 1875, all deductions being ignored. That they were small is shown by 1876 figures (with a higher exemption limit), and the 28th Report merely says “cannot be distinguished.” The 1st Report indicates that the “net” was a true net, and the deductions have to be added, but the 28th Report shows that if any addition is made the sequence in the gross is unaccountably disturbed. The answer to the riddle is found by checking the duty. From this it is clear that from 1857–8 the gross is a true one, and it is the net which is excessive, whereas prior to that date the net was reached *from* the duty, and £22,000 has to be added to give the true gross.

Stage (3).—The “property rated on half-rents” (included in the “fines” column) has to be added to the “messuages,” and this removes some of the anomalies in the latter.

Stage (4).—In 1876–7 there is a footnote that the large difference in messuages as compared with previous years is due to the value

of farmhouses having been previously included there instead of with lands.¹ The adjustment is obviously about £630,000. But the process started earlier: it is clear there is a transfer in 1873 of £117,000, for otherwise the Sch. B gross figures cannot be explained, and the figures for the several columns do not run properly. Again, in 1862 to 1864 there was a similar disturbance (£260,000) in the opposite direction. These have been rectified before taking the figures back.

Stage (5).—The gross assessments prior to 1861 are then divided in proportion between lands, houses, and other property back to 1853.

Stage (6).—All four columns of stage (5) are carried back to 1842 by reference to the poor rate valuations.

Stage (7) (Sch. B).—The gross are, *ex hypothesi*, the same as lands in stage (6). We have given us officially: exemptions after 1872-3 and net assessments from 1853-4. The exemptions are found by deduction back to 1853, and both by proportion back to 1842.

These results interlock in several ways, and satisfy the following practical tests:—

(1) Gross assessments under each head exhibit a clearly defined re-assessment grouping.

(2) Gross assessments for Sch. A from 1853-4 move in close agreement with the net poor rate valuation² at each point of contact (*viz.*, valuation at 30th September, 1856, with new assessment 1857-8), with a constant proportionate difference due to the properties assessed and not rated, and those rated and not assessed.³ These figures go back to 1851, and the exact poor law valuation aggregate for Ireland is known for 1842, 1845, 1846, 1849, and 1850.⁴ The average proportion between the assessments and the valuation at the three re-assessment years 1853, 1857, and 1861 has been used to obtain the fictitious Sch. A prior to 1853 (*i.e.*, what the Sch. A assessments would have been if the tax had applied to Ireland in those years), the intervening years being closely verified. This proportion hardly varied, and the range of probable error assigned is quite adequate.

(3) Gross assessments for lands and houses agree in trend with the evidence given before the several committees, and also with

¹ This adjustment is omitted in the corrected tables given with the Report of the R. C. on Financial Relations, 1894, p. 425.

² 28th Report, pp. 259, etc.

³ *Vide* Annual Reports of the Poor Law Board and Local Government Board for Ireland.

⁴ *Vide* p. 144. The reasons for treating 1842 to 1846 as a constant figure are given.

the returns made to Parliament on the tenement valuations¹ from 1842 to 1861, after which the adjusted official figure applies.

(4) The Sch. B exemptions and deductions form a residual, but the result is in harmony with the movement of the gross, and it exhibits the deficiency (accompanied by an equivalent excess in the net assessments) which is properly found in the re-assessment years,² and generally it shows the drop in the last year which is to be expected in the "lands" assessment where all changes are downward, and no additional values like new houses come into the total.

(5) The figures for Sch. B exemptions, taking the best years for comparison (*viz.*, the year following each re-assessment year), bear a practically constant relationship to the total. The percentage increases after 1875 (owing to the higher exemption limit) and remains constant for a time. The slight difference gives the additional factor for computing the figures prior to 1853 with a close degree of accuracy.

Each succeeding cross-check enables the assigned probable errors to be reduced, and therefore these results, obtained after various alternatives had been tried, cannot be far from the true comparative official figures. Their relationship to the true values of the properties is discussed elsewhere.³

The results are found in Table A4.

Sch. D.

The decade preceding the imposition of the income tax in Ireland in 1853 was one of a remarkable character. It saw the great famine, the evictions, and an extraordinary decrease in population. It would be imagined that the yield of an income tax under Sch. D must be very adversely affected at such a time, but it appears, on examination, that the class of people chiefly concerned were so wretchedly poor that their whole sustenance was drawn from the land, and their actual disappearance hardly affected that business and commercial activity which is reached by Sch. D. The statistics of consumption of spirits and beer, tobacco, tea and coffee reflect in only a very slight degree the great catastrophe of 1846-7, while the operation of the three years' average system under Sch. D would minimise what depression there was by masking its effects. The diminution in population of this hopelessly indigent

¹ *Vide* p. 161. For 1861-2 it is in close agreement with the adjustment on p. 425 of the Financial Relations Report, 1894, after allowing for farmhouses.

² *Vide* p. 312.

³ Chap. IV.

class, with practically no spending power whatever, leaves very little trace in this respect.

Since we are concerned only with the gross assessments at the exemption limit of £150 which obtained from 1842-3 to 1852-3, and the statistics for 1853 onwards relate to the gross assessments at an exemption limit of £100, an adjustment is necessary, and is given in the following table (£000 omitted) :—

Year.	Gross. Sch. D. ¹	Gross Assessments relating to Incomes between £100 and £150.	Difference between the two preceding Columns, represent- ing Gross Assess- ments with Exemp- tion Limit of £150.
	£	£	£
1853-4	5,078	572	4,506
1854-5	5,036	572	4,464
1855-6	4,987	590	4,397
1856-7	5,060	595 (estimated)	4,465
1857-8	5,440	600	4,840
1858-9	5,527	580	4,947
1859-60	5,578	542	5,036
1860-1	5,594	567	5,027
1868-9	7,527	820 (estimated)	6,707

Up to 1861-2 the actual sum for col. 3 is determinable from the amount charged at the lower rate (except in 1856-7, which has been completed by estimate). After that year the differential rate ceased and the abatements took their place, so that further estimates would be necessary to continue the series. It is desirable, however, to determine how closely the index number would approximate to the facts in a year at least as far removed from the base year on one side, as the earliest year to which it is proposed to apply that index number is distant upon the other side, *i.e.*, twelve years. The year 1868-9 has been chosen, and col. 3 has been estimated by relation to the mean between (a) the last year for which the differential rate exists; and (b) 1876-7, when the exemption limit was raised from £100 to £150, the sum assignable to the change being calculated as in Appendix I. Col. 4 gives the series to which the index number has to conform approximately. The first two years are ignored, and 1855-6 is

¹ *Vide* table in Appendix II.

taken as the base, for the reasons given in the 10th Report,¹ where, for comparative purposes, the two earlier years were ignored.

In constructing the index number it has been thought desirable to use components which will represent (1) the consumption of the mass of the population so far as commodities outside food-stuffs derived from the land are concerned, since the latter affect Sch. D profits but slightly (items representing professions and luxuries are also necessary); (2) the movement of the larger finance and commerce; and (3) the movement of external trade.

(1) For the "consumption index" the following annual statistics for Ireland have been used:—

- (1) Quantities of spirits distilled.
- (2) Number of licences issued to spirit dealers.
- (3) Number of bushels of malt charged with Excise Duty.
- (4) Number of licences issued to beer *dealers* (not retailers).
- (5) Number of licences issued to spirit retailers.
- (6) Number of licences issued to spirit distillers.
- (7) Quantities of spirits charged for home consumption.
- (8) Number of licences issued for post horses and carriages.
- (9) Number of licences issued to tea and coffee dealers.
- (10) Number of licences issued to tobacco dealers.
- (11) Number of licences issued to tobacco manufacturers.
- (12) Amount of licence duty paid by attorneys, notaries and conveyancers.

Other series that might have been useful had to be excluded because for legislative or other reasons they were not complete and uniform in basis over the period 1839 to 1868. The details have been obtained from the Annual Reports of Trade, etc., and from the 13th Report. Numbers 9 to 12 were taken as applicable to the years for which the statistics are given, but the others were thrown into three years' averages corresponding with Sch. D. The result is shown on p. 506.

(2) For financial movements very little statistical material is available. The most complete series of figures is the record of Irish note circulation. This seems to have reflected the movements of commerce very well ² until the sixties, when it became

¹ P. 39:—"We have reason to believe that the figures for the first year of the income tax in Ireland must be used with caution. The officers who had the chief share in making the original assessments inform us that there was undoubtedly much property brought into assessment . . . at far too high a value, and that the errors were not corrected until 1855."

² *Vide* the evidence taken before the S. C. on Banks of Issue, 1875 (H. C.—351), Qs. 2,720-47, 5,524-6.

Year.	1	2	3	4	5	6	7	8	9	10	11	12	Index.
1842-3	95	88	87	50	105	144	101	63	53	78	169	124	96
1843-4	75	75	77	50	89	137	79	63	56	81	158	154	91
1844-5	68	70	73	57	83	126	71	63	60	87	154	146	88
1845-6	70	71	79	63	82	126	71	63	73	94	155	143	91
1846-7	83	73	87	69	86	127	80	63	87	100	148	159	97
1847-8	95	79	99	71	90	133	90	65	87	92	131	154	99
1848-9	90	82	98	72	92	132	89	64	84	87	126	149	97
1849-50	89	85	98	69	91	131	86	61	82	84	121	153	96
1850-1	88	86	94	73	89	125	82	63	84	86	120	132	93
1851-2	99	89	100	81	90	122	88	71	86	86	110	148	97
1852-3	98	92	99	89	90	118	90	83	90	89	108	143	99
1853-4	97	95	100	95	94	114	95	90	93	92	109	132	100 $\frac{1}{2}$
1854-5	99	97	99	98	97	107	98	96	96	95	102	103	99
1855-6	100	100	100	100	100	100	100	100	100	100	100	100	100
1856-7	101	104	100	100	102	98	93	102	104	105	98	99	100 $\frac{1}{2}$
1857-8	101	108	101	108	105	105	88	103	108	109	98	102	103
1858-9	107	112	105	117	108	110	82	105	114	115	97	97	106
1859-60	105	116	115	133	109	113	78	110	120	120	97	95	109
1860-1	99	117	126	148	109	109	74	115	126	126	96	92	111 $\frac{1}{2}$
1861-2	79	116	133	169	108	106	64	118	129	130	94	93	111 $\frac{1}{2}$
1868-9	66	111	149	372	99	79	56	118	158	148	76	81	126

almost stationary as cheques and bank deposit accounts gradually came more into favour.¹ The index is adversely affected for 1868-9 only, and for this purpose the actual result is ignored, and as there is evidence that banking activities were fully maintained² the *rate* of progress in the index from 1855 to 1861 has been continued to give the figure necessary for 1868-9.

Scotch and Irish.—But there is a disturbance in the earlier period, after the Banks Act of 1845, which throws the figures quite out of harmony with the facts of the years 1846 to 1848.³ Rather than abandon this series altogether, figures have been estimated⁴ and substituted for each year, and the average is affected accordingly.

(3) The index for external trade activity is also troublesome to construct. The statistics for exports and imports change their basis at various dates from 1851 to 1856, although it is just possible by parallel series to bridge the gap. But exports are relatively small (£341,000 in 1855) and fluctuate widely from year to year, while imports are often quite out of proportion to any possible effect upon *home* profits. Thus they were £1,951,000 for 1845, £2,896,000 for 1846, £8,035,000 for 1847, £4,294,000 for 1848, the years covering the Irish famine. Such figures are obviously unsuitable. There is a series of tonnage figures for Dublin, Cork, and Belfast, but it "breaks" badly at 1854. The best series available is the "coasting trade" tonnage of vessels cleared in all Irish ports. It represents steam vessels; but the sailing vessels for the greater part of the series are relatively small and slowly diminishing, while the statistics for them are incomplete. Both of the other series lend general support to the one adopted, so far as they go.

In the complete index number weights are given to (1) and (3), doubled in each case. The table on p. 508 gives the result.

It will be seen on a comparison of the last six years mentioned with the foregoing actual figures of Sch. D that the latter aggregate to £31,022,000, and the table to £31,147,000—a difference of .4 per cent., while the largest error is 4.7 per cent., and in four of the years the difference is 1 per cent. or less. A range of error

¹ The Irish banks came into the Clearing House, and began to make attractive terms for banking accounts in the sixties. *Loc. cit.* Qs. 2,743, 2,959-60, 2,379-83, 2,392, 2,477, 2,478, and much other evidence on banking activity in the sixties in this Report.

² Though actual figures are very defective—*ibid.*, Appendix, p. 559.

³ That the figures do not represent a real increase in profitable financial activity is clear from the evidence before the S. C. on Banks of Issue, 1857 (H. C.—220), Qs. 1,756-60.

⁴ After consideration of the evidence before the Committee (Appendix, pp. 148-152, etc.).

of 10 per cent. is therefore considered an ample allowance, especially when it is remembered that the actual use of these estimates is to make up the aggregates for the United Kingdom for comparative purposes, in which this allowance forms less than .5 per cent. of the whole.

Year.	Consumption Index, $\times 2$.	Finance Index.	External Trade Index, $\times 2$.	Total Index.	Profits in £000 on basis of col. 4 (Error $\pm$ 10 per cent.).	
1842-3	192	96	90	378	3,325	
1843-4	182	96	90	368	3,235	
1844-5	176	94	92	362	3,185	
1845-6	182	97	100	379	3,335	
1846-7	194	92	114	400	3,520	
1847-8	198	91	114	403	3,545	
1848-9	194	90	130	414	3,641	
1849-50	192	88	136	416	3,658	
1850-1	186	84	138	408	3,588	
1851-2	194	82	144	420	3,695	
1852-3	198	79	160	437	3,845	
1853-4	201	83	174	458	4,030	
1854-5	198	90	196	484	4,255	<i>Actual.</i>
1855-6	200	100	200	500	4,397	4,397
1856-7	201	109	204	514	4,520	4,465
1857-8	206	117	214	537	4,723	4,840
1858-9	212	121	226	559	4,916	4,947
1859-60	218	119	240	577	5,070	5,036
1860-1	222	120	256	598	5,278	5,027
1868-9	252	143	360	755	6,640	6,707

As a check upon these estimates, however, the simpler method of percentage proportion may be applied, *i.e.*, it may be assumed that Irish profits bore the same ratio to those of Great Britain before 1855 as they did after that date. The actual proportion in 1855-6 was 5.5 : 94.5. By 1862 it had fallen to 5 : 95, by 1871 to 4 : 96 and by 1877 to 3.5 : 96.5. But if we assume that the 1855-6 ratio obtained from 1842 and that the ratio was not more in Ireland's favour, we shall probably be doing full justice to a disastrous decade in Irish history. Since the ratio is that of full Irish profits to profits from Great Britain excluding Irish posses-

sions, it is necessary to apply the ratio to the estimated net figures, *vide* p. 211, to give a series of full Irish profits comparable with the foregoing estimates. After allowing for the No. III., Sch. A, assessments,¹ the result is as follows :—

Year.	Estimates by Index.	Estimates by Percentage.	Estimate adopted.
1842-3	3,325 ± 332	3,337 ± 14	3,331 ± 173
1843-4	3,235 ± 323	3,239 ± 102	3,237 ± 213
1844-5	3,185 ± 318	3,255 ± 119	3,220 ± 218
1845-6	3,335 ± 333	3,404 ± 2	3,370 ± 168
1846-7	3,520 ± 352	3,456 ± 108	3,488 ± 230
1847-8	3,545 ± 354	3,400 ± 181	3,400 ± 181
1848-9	3,641 ± 364	3,291 ± 1	3,291 ± 200
1849-50	3,658 ± 366	3,416 ± 44	3,416 ± 200
1850-1	3,588 ± 359	3,569 ± 41	3,578 ± 200
1851-2	3,695 ± 369	3,722	3,708 ± 184
1852-3	3,845 ± 384	3,860	3,852 ± 192

The results are so close in most cases that the mean has been adopted, but in the three years 1847-8 to 1849-50, in view of the known depression over the whole kingdom, the presumption is in favour of the percentage method, for it is unlikely that Ireland was relatively *less* depressed than Great Britain.² Moreover, the index series at this point contains several doubtful components.

Sch. E.

The figures after 1853 for Great Britain are less by about £90,000 formerly assessed upon offices in Ireland, which then were included in the Irish figures. The percentage borne by Irish assessments remained very constant for a considerable period, so that, as the amounts involved are quite small, the proportion has been continued backwards to 1842 for Table E.

Totals.—The net taxable income as a whole rose from 19·5 millions in 1842 to 19·9 in 1847 and then fell to 18·8 in 1852.

In view of the utility of the 1st Report for purposes of interpretation, and of the fact that it is not generally available, a synopsis of the tables is appended.

¹ *Vide* p. 493.

² *Vide* also R. C. on Financial Relations, Qs. 4,062, etc.

Year 1855-6—First Report, Assessments.

	England.	Scotland.	Ireland.
<i>Sch. A :</i>	£	£	£
Lands	41,048,091	5,872,714	
Messuages	44,196,369	4,239,216	
Concerns, No. III. (Manors, etc.)	16,199,061	2,253,887	
Other profits	127,757	62,964	
Tithes	366,897	—	
Total gross	101,938,175	12,428,781	
<i>Deductions :</i>			
Land tax	594,329	15,662	
Sea walls, etc.	456,142	38,039	
Colleges and hospitals	98,072	—	
Exempted	7,770,480	816,749	
Net at 16d.	91,752,736	11,405,140	11,878,545
„ 11½d.	1,266,416	153,191	
Persons exempt	No. 501,035	No. 67,788	

<i>Sch. B :</i>	£	£	
Lands	41,021,100	5,866,607	
Nurseries and market gardens	29,960	6,107	
Composition for tithes leased	19,088	—	
Gross assessment	41,070,148	5,872,714	
<i>Deductions :</i>			
One-eighth	4,253,425	—	
Other deductions	34,444	—	
Exempted	12,193,631	2,828,507	
<i>Net assessments :</i>			
Lands at 8d.	21,660,471	2,563,972	2,572,288
„ 5½d.	2,883,955	474,128	2,396
Nurseries, etc. at 16d.	26,165	6,107	—
Composition at 4½d.	18,057	—	—
Persons assessed	No. 623,949	No. 64,942	
„ exempt	355,674	47,063	

Year 1855-6—First Report, Assessments—continued.

	England.	Scotland.	Ireland.	Total.
<i>Sch. D (General) :</i>	£	£	£	£
(1) Under £100 exempt.	4,747,167	4,284,423	282,061	9,313,651
(2) Under £100 at 11½d.	1,129,877	189,192	94,218	1,413,287
(3) £100—£150 „	7,320,645	649,327	495,506	8,465,478
(4) Under £150 at 16d.	3,311,351	454,902	316,299	4,082,552
(5) Over £150 „	49,356,601	5,083,885	3,430,651	57,871,137
<i>Total gross D</i>	65,865,641	10,661,729	4,618,735	81,146,105
<i>Special Commissioners :</i>				
£100—£150 at 11½d.	2,865	189	—	3,054
Under £150 at 16d.	21,668	973	—	22,641
Over £150 „	6,689,383	340,188	—	7,029,571
<i>Total</i>	6,713,916	341,350	—	7,055,266

<i>Sch. E :</i>	£	£	£	£
(1) Under £100 exempt.	203,621	92,367	21,670	317,658
(2) Under £100 at 11½d.	73,659	24,162	28,623	126,444
(3) £100—£150 „	482,631	88,501	42,943	614,075
(4) Under £150 at 16d.	397,407	111,164	69,347	577,918
(5) Over £150 „	2,173,726	546,028	194,678	2,914,432
<i>Total E</i>	3,331,044	862,222	357,261	4,550,527

<i>Sch. D Numbers (net) :</i>	£	£	£	No.
Under £100 exempt	—	—	—	196,704
Under £100 at 11½d.	—	—	—	22,409
£100—£150 „	—	—	—	76,869
Under £150 at 16d.	—	—	—	50,029
Over £150 „	—	—	—	124,666
<i>Total</i>	—	—	—	470,677

<i>Sch. E Numbers :</i>	£	£	£	No.
Under £100 exempt	—	—	—	6,012
Under £100 at 11½d.	—	—	—	2,207
£100—£150 „	—	—	—	5,314
Under £150 at 16d.	—	—	—	8,717
Over £150 „	—	—	—	8,763
<i>Total</i>	—	—	—	31,013

Year 1855-6—First Report, Assessments—*continued.**Duty Payable.*

	England.	Scotland.	Ireland.	Total.
<i>Sch. A</i> , at 16 <i>d.</i> . . .	£ 6,134,891	£ 760,342	£ 791,903	£ 7,687,136
„ 11½ <i>d.</i> . . .	60,608	7,337	—	67,945
Total . . .	6,195,499	767,679	791,903	7,755,081
<i>Sch. B</i> , at 8 <i>d.</i> . . .	720,313	61,059	61,264	842,636
„ 5½ <i>d.</i> . . .	69,172	7,567	38	76,777
„ 16 <i>d.</i> . . .	1,783	400	—	2,183
„ 4¼ <i>d.</i> . . .	277	—	—	277
Total . . .	791,545	69,026	61,302	921,873
<i>Sch. C</i> . . .	1,627,157	—	91,403	1,718,560
<i>Sch. D</i> , at 16 <i>d.</i> . . .	3,957,698	392,025	249,789	4,599,512
„ 11½ <i>d.</i> . . .	405,139	40,160	28,259	473,558
5 p. c. composition . . .	7,295	626	2,162	10,083
Total . . .	4,370,132	432,811	280,210	5,083,153
<i>Sch. E</i> , at 16 <i>d.</i> . . .	746,997	43,831	52,807	843,635
„ 11½ <i>d.</i> . . .	113,479	5,380	6,361	125,220
Total . . .	860,476	49,211	59,168	968,855
Gross Total . . .	13,844,809	1,318,727	1,283,986	16,447,522

APPENDIX IV.

THE INCOME TAX OF THE NAPOLEONIC WARS,
1799 TO 1816.

SUMMARY TABLES FOR SELECTED YEARS (COMPILED FROM THE
ORIGINAL PARLIAMENTARY RETURNS.)

The Income Tax of 1801.
(The First Classification given.)

Class of Income.	No. of Persons in Class.	Amount of Assessment.	Proportion of In- come :— One—	Amount of Income (ooo omitted).
£		£	th	£
60—65	54,321	26,357	120	3,163
65—70	14,728	10,595	95	1,007
70—75	23,913	23,113	70	1,618
75—80	9,321	10,258	65	667
80—85	19,639	25,291	60	1,517
85—90	7,302	11,116	55	611
90—95	11,205	19,459	50	973
95—100	7,335	15,323	45	690
100—105	24,031	57,916	40	2,317
105—110	4,925	13,154	38	500
110—115	6,136	18,157	36	654
115—120	4,083	13,461	34	458
120—125	8,582	30,668	32	981
125—130	4,365	17,829	30	535
130—135	5,760	25,850	28	724
135—140	3,646	18,502	26	481
140—145	5,784	32,370	24	777
145—150	3,069	19,728	22	434
	218,145	389,148		18,105
150—155	9,203	65,285	20	1,306
155—160	2,184	17,311	19	329
160—165	3,761	32,010	18	576
165—170	2,082	19,461	17	331
170—175	3,647	37,411	16	599
175—180	2,035	22,975	15	345
180—185	3,758	46,100	14	645
185—190	1,884	25,954	13	337
190—195	2,680	41,486	12	498
195—200	2,320	41,302	11	454
200—500	42,694	1,223,908	10	12,239
500—1,000	14,762	949,847	10	9,498
1,000—2,000	6,927	904,115	10	9,041
2,000—5,000	3,657	1,040,275	10	10,403
5,000 . .	1,020	997,039	10	9,970
Total .	320,759	5,853,629		74,677

This accounted for £5,853,629 duty. The balance unclassified made up £390,809 more (Scotland £19,768, and children's allowances, £371,041)—£6,244,438 in all.

Details under Schs. A and B (£000).

	1806.			1808.			1810.			1814-5.		
	England and Wales.	Scot-land.	Total.	England and Wales.	Scot-land.	Total.	England and Wales.	Scot-land.	Total.	England and Wales.	Scot-land.	Total.
Property from lands, according to General Rule No. 1.												
Houses, ditto	25,908	3,926	29,834	27,368	4,341	31,709	29,503	4,627	34,130	34,330	5,075	39,406
Tithes	11,202	712	11,914	12,030	1,012	13,042	13,011	1,169	14,179	14,895	1,364	16,259
Manors	2,012	—	2,012	2,140	—	2,140	2,353	—	2,353	2,733	—	2,733
Fines	44	—	44	54	—	54	64	—	64	72	—	72
Quarries	70	2	72	110	2	112	155	1	156	207	10	217
Mines	10	14	24	25	14	39	29	13	43	50	21	70
Ironworks	316	47	364	428	59	487	483	78	561	616	63	679
General profits, Sch. A	77	7	85	130	23	153	223	45	268	575	63	638
	249	229	478	182	67	250	55	76	131	18	47	65
Total	39,897	4,937	44,835	42,467	5,519	47,986	45,876	6,009	51,886	53,495	6,643	60,138
Amount assessed according to rent	17,298	2,822	20,120	18,588	3,012	21,600	26,010	4,171	31,081	31,098	4,498	35,596
Ditto, value (owners)	4,777	447	5,224	5,137	566	5,703	8,213	886	9,099	10,045	995	11,040
Ditto (tenanted)	3,833	657	4,490	3,644	763	4,407	7,391	739	8,130	8,083	946	9,029
Total	25,908	3,926	29,834	27,368	4,341	31,709	42,514	5,796	48,309	49,226	6,440	55,665
Sch. B:												
Tithe free	6,872	2,575	9,447	7,260	4,188	11,448	7,904	3,899	11,804	9,459	4,367	13,826
Titheable	17,841	—	17,841	18,611	—	18,611	20,217	—	20,217	23,269	—	23,269
Tithe free in part	656	—	656	790	—	790	856	—	856	741	—	741
Tithe free on payment of modus	509	—	509	528	—	528	499	—	499	561	—	561
Composition for tithes and tithes leased	1,558	—	1,558	1,748	—	1,748	1,932	—	1,932	2,232	—	2,232
Total	27,536	2,575	30,111	28,936	4,188	33,124	29,477	3,899	33,376	36,261	4,367	40,628
Deductions	885	—	885	939	—	939	1,018	—	1,018	923 est.	—	923 est.

Gross Assessments under each Schedule—Except Sch. C and Public Offices (£000).

—	1803.			1805.			1806.		
	England	Scot-land.	Total.	England	Scot-land.	Total.	England	Scot-land.	Total.
Gross Estimates :									
Sch. A . .	34,671	3,827	38,498	37,686	4,087	41,773	39,897	4,937	44,835
Deductions .	1,567	393	1,960	1,348	393	1,741	1,015	191	1,206
Sch. B . .	22,701	1,574	24,275	25,004	1,988	26,992	25,878	2,575	28,453
Deductions .	826	117	942	831	162	994	885	—	885
Tithes leased or com-pounded for	162	—	162	243	—	243	1,658	—	1,658
Sch. C . .	6,524	171	6,695	4,747	147	4,894	—	—	—
Sch. D . .	32,935	1,920	34,855	32,790	1,883	34,673	32,764	1,807	34,570
Deductions .	—	—	—	76	1	76	—	—	—
Sch. E . .	535	161	696	754	177	931	910	240	1,150
Total gross estimates .	97,365	7,653	105,018	100,981	8,282	109,263	99,449	9,559	109,008
Total deduc-tions .	2,392	510	2,903	2,255	556	2,811	1,900	191	2,092

—	1808.			1810.			1814.		
	England	Scot-land.	Total.	England	Scot-land.	Total.	England	Scot-land.	Total.
Gross Estimates :									
Sch. A . .	42,467	5,519	47,986	45,876	6,009	51,886	53,495	6,643	60,138
Deductions .	970	96	1,067	911	73	984	824	81	905
Sch. B . .	27,188	4,188	31,376	29,477	3,899	33,376	34,029	4,367	38,396
Deductions .	939	—	939	1,018	—	1,018	923	—	923
Tithes leased or com-pounded for	1,748	—	1,748	1,932	—	1,932	2,232	—	2,232
Sch. C . .	—	—	—	—	—	—	—	—	—
Sch. D . .	31,390	2,109	33,499	32,211	2,192	34,402	34,288	2,771	37,059
Deductions .	—	—	—	—	—	—	—	—	—
Sch. E . .	1,011	326	1,337	1,157	372	1,529	1,516	512	2,028
Total gross estimates .	102,056	12,142	114,198	108,721	12,473	121,194	123,328	14,293	137,621
Total deduc-tions .	1,909	96	2,006	1,929	73	2,002			

Sch. D : Classification of Profits (Great Britain).¹
(000 omitted.)

	1806.	1808.	1810.	1812.	1814.
£50 and under			{2,782	2,744	2,974
£50 and under £100	9,913	9,747	{6,793	7,085	7,215
£100 " £150			{3,196	3,307	3,415
£150 " £200	4,617	4,565	{1,813	1,724	1,756
£200 " £300	2,311	2,310	2,312	2,379	2,491
£300 " £400	1,667	1,658	1,671	1,690	1,808
£400 " £500	1,211	1,240	1,223	1,183	1,266
£500 " £600	1,078	1,101	1,104	1,164	1,227
£600 " £700	789	770	790	796	863
£700 " £800	513	526	553	561	606
£800 " £900	645	596	594	610	681
£900 " £1,000	344	323	327	295	305
£1,000 " £1,500	1,746	1,647	1,834	1,711	1,903
£1,500 " £2,000	1,036	1,073	1,109	1,043	1,274
£2,000 " £3,000	1,634	1,524	1,490	1,594	1,669
£3,000 " £5,000	5,970	5,534	{2,069	1,852	2,109
£5,000 and upwards			{4,741	4,647	5,498
Amount assessed under 1st and 2nd cases	33,474	32,615			
Amount assessed under other cases	1,097	884			
Total	34,570	33,499	34,402	34,384	37,059

Amount of Allowance of Duty on Income Distinguished in Classes.
(000 omitted.)

Allowances.	Incomes.	1806.	1808.	1810.	1814.
1s. and under 10s.	under £150 to £140	10	8	4	2
10s. " 20s.	£140 " £130	10	9	8	7
20s. " 30s.	£130 " £120	15	14	13	12
30s. " 40s.	£120 " £110	23	23	22	22
40s. " 50s.	£110 " £100	31	31	30	30
50s. " 60s.	£100 " £90	56	57	58	60
60s. " 70s.	£90 " £80	58	61	61	60
70s. " 80s.	£80 " £70	93	95	96	97
80s. " 90s.	£70 " £60	112	109	111	115
90s. " 100s.	£60 " £50	220	233	246	266
Total		629	640	651	672

¹ Tables give Scotland separately, if required.

Number of Houses assessed to House Duty, 1822 and 1829.
(From H.C. 187 and 387 of 1824 and 123 and 160 of 1830-1, which gives county details (in thousands).)

Annual Value.	1822-3.	1829-30.	
	England and Wales.	England and Wales.	Scotland.
£			
10—15 . . .	} not given { 64·6	116·0	17·9
15—20 . . .		66·4	7·1
20—30 . . .		74·5	4·5
30—40 . . .		44·9	2·3
40—50 . . .		26·0	1·4
50—60 . . .	12·8	14·7	·7
60—80 . . .	13·5	15·9	·8
80—100 . . .	5·8	6·7	·5
100—200 . . .	9·2	10·7	·4
Over 200 . . .	2·5	2·9	·03
Total . . .	167·8	378·8	35·6
Farmhouses exempt .	—	136·2	3·6 (3·2 being £10 to £15)

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